

EXHIBIT U

ORDINANCE NO. 20180524-012

AN ORDINANCE APPROVING AMENDMENT NO. 2 TO THE PROJECT AND FINANCING PLAN FOR TAX INCREMENT FINANCING REINVESTMENT ZONE NO. 17 (WALLER CREEK TUNNEL PROJECT).

BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF AUSTIN:

PART 1. FINDINGS:

- (a) Council finds that Amendment No. 2 to the Project and Financing Plan for Tax Increment Financing (TIRZ) Reinvestment Zone No. 17 (Waller Creek Tunnel Project) has the City public purpose of updating current project design and project costs estimates, providing the most recent estimates of underlying funding sources that are anticipated to pay for the City's participation in the construction of the Waller Creek Chain of Parks as reflected in the revised Waller Creek Design Plan attached to the Amendment No. 2, extending the time period for the continuation of the TIRZ by the City for an additional 13 years to pay for improvements to the parks and other City infrastructure that provides a benefit to the property in the area and to the people who will be able to use the parks.
- (b) Council finds that the Amendment No. 2 to the Project and Financing Plan for TIRZ No. 17 (Waller Creek Tunnel Project) is feasible and conforms to the master plan of the City.
- (c) Council finds that Amendment No. 2 to the Project and Financing Plan for the TIRZ No. 17 (Waller Creek Tunnel Project) supplements the Amendment No. 1 approved by Council for the construction, operation, and maintenance of the tunnel.
- (d) Council extends the date for termination of the zone to September 30, 2041.
- (e) This extension does not change the boundaries of the TIRZ.
- (f) The Board of Directors is established by Council by separate action.
- (g) Council finds that the tunnel and the Waller Creek Chain of Parks and related infrastructure will significantly enhance the value of the taxable property within

the zone and will be of general benefit to the City and to the other taxing entities with taxing authority within the zone.

(h) Council finds that the TIRZ area continues to meet the criteria for designation of a reinvestment zone under Section 311.005 of the Texas Tax Code.

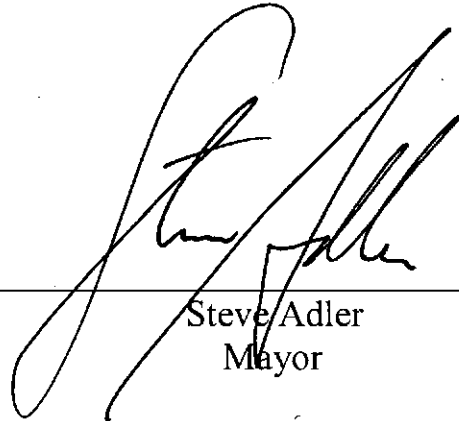
PART 2. Council approves Amendment No. 2 to the Project and Financing Plan for TIRZ No. 17 attached to this ordinance as Exhibit A.

PART 3. This ordinance takes effect on June 4, 2018.

PASSED AND APPROVED

_____, May 24, 2018

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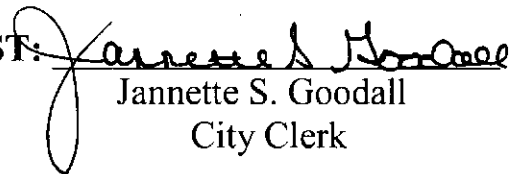
Steve Adler
Mayor

APPROVED:



Anne L. Morgan
City Attorney

ATTEST:



Jannette S. Goodall
City Clerk

City of Austin
Tax Increment Financing Reinvestment Zone No. 17

**Amendment No. 2 to Final Project Plan and Reinvestment
Zone Financing Plan**

May 2018

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EXHIBITS

Related to the May 2018 Project Plan and Reinvestment Zone Financing Plan

Exhibit A	Map- Existing TIRZ No. 17 Boundaries
Exhibit B	Map- Proposed Project Plan
Exhibit C	Downtown Parks and Potential Property Value Implications in Austin
Exhibit D	Waller Creek Tax Increment Finance Analysis
Exhibit E	Updated Tax Increment Financing (TIF) Value Increment and Tax Revenue Schedule
Exhibit F	Waller Creek Design Plan Update

Executive Summary

The purpose of Amendment No. 2 to the Waller Creek Tax Increment Reinvestment Zone No. 17 (TIRZ No. 17) Final Project Plan and Financing Plan adopted in 2008, and amended in 2011, is to:

- Capture the benefits of building the surface-level improvements known as Waller Creek and the Chain of Parks (the Parks)
- Amend the duration of the Waller Creek TIRZ No. 17, as it relates to the City of Austin's participation, to provide bonding capacity to fund the design and construction of the Parks
- Provide updated cost estimates for the new projects to be executed
- Update estimates for revenue growth anticipated in the TIRZ No. 17 District to support bonds for building the Parks

In accordance with State law, the Board of Directors of the Waller Creek TIRZ No. 17 at any time may adopt an amendment to the Project Plan consistent with the requirements and limitations of applicable State law. The amendment takes effect on approval by the City of Austin, as the municipality that created the zone.

History

On June 21, 2007, the Austin City Council approved an ordinance creating TIRZ No. 17 to finance the construction of the Waller Creek Tunnel Project. The TIRZ is located within the area bounded on the west by Red River Street from 12th Street south to 3rd Street, then west along 3rd Street to Trinity Street, then south along Trinity Street to Lady Bird Lake; on the south by Lady Bird Lake from Trinity Street east to Cummings Street, then east along Cummings Street to East Avenue; on the east by East Avenue from Cummings Street north to the south bound access road of IH-35, then along said access road north to 11th Street, then west along 11th Street to Sabine Street, and north along Sabine Street to Red River Street; and on the north by 12th Street between Sabine Street and Red River Street.

The original agreement was executed in March 2008 between the City of Austin and Travis County, and was amended in July 2011 for project design and cost estimates for the Waller Creek Tunnel Project.

Waller Creek and the Chain of Parks

The City of Austin, in partnership with the Waller Creek Conservancy, is developing *The Parks* along a restored Waller Creek in downtown Austin. Extending from Waterloo Park to Lady Bird Lake, The Chain of Parks will include 35-acres of revitalized and newly designed public open space along 1.5 miles of a restored Waller Creek. Within the public open space will be three miles of new hike and bike trails, world class art installations, green space for children and families, and engaging cultural programs for all. Historically plagued by flash floods and undesirable uses, the new park and open space district will reintroduce Waller Creek to the City; transforming a forgotten place into a signature destination for Austinites and visitors alike.

TIRZ Amendment No. 2

In this Amendment, the City seeks to extend the duration of its portion of TIRZ No. 17. Currently, the TIRZ No. 17 is set to terminate on September 30, 2028, or the date on which the project has been fully implemented and all Project Costs of the TIRZ, including any debt or interest on that debt, issued by the City in accordance with the financing plan have been paid or otherwise satisfied in full. The amended end date is *September 30, 2041*.

This amendment only affects the City of Austin's participation. If an amendment increases the total estimated project costs, the approval must be by ordinance or order, as applicable, adopted after a public hearing that satisfies the procedural requirements outlined in State law. The City has completed the necessary procedural requirements. Notice of the public hearing was published in the Austin American Statesman on May 11, 2018 and the public hearing was scheduled and held in City Council chambers on May 24, 2018.

On February 11, 2011, the City Council and the Waller Creek TIRZ #17 Board adopted Amendment No. 1 to the Final Project Plan and Financing Plan. That information – which includes the original Project Plan and Financing Plan from 2008 – as well as supporting reports, can be found: <http://www.austintexas.gov/departments/city-council/2011/20110217-reg.htm> (Item 25)

Amendment No. 2 to the Final Project Plan and the Reinvestment Zone Financing Plan

The purpose of Amendment No. 2 to the Waller Creek Tax Increment Reinvestment Zone #17 Final Project Plan and Financing Plan adopted in 2008, and amended in 2011, is to:

- Capture the benefits of building the surface-level improvements known as the Waller Creek and the Chain of Parks (“the Parks”)
- Amend the duration of the Waller Creek TIRZ No. 17, as it related to the City of Austin’s participation, to provide bonding capacity to fund the design and construction of the Parks
- Provide updated cost estimates for the new projects to be executed
- Update estimates for revenue growth anticipated in the TIRZ No. 17 District to support bonds for building The Parks

In accordance with State law, the Board of Directors of the Waller Creek TIRZ No. 17 at any time may adopt an amendment to the Project Plan consistent with the requirements and limitations of applicable State law. The amendment takes effect on approval by the City of Austin, as the municipality that created the zone. The original agreement was executed in March 2008 between the City of Austin and Travis County, and was amended in July 2011 for project design and cost estimates for the Waller Creek Tunnel Project. A map of the TIRZ No. 17 is shown as Exhibit A. This second amendment extends the duration of the Zone until 2041 for the City. If an amendment increases the total estimated project costs, the approval must be by ordinance or order, as applicable, adopted after a public hearing that satisfies the procedural requirements outlined in State law. The City has completed the necessary procedural requirements. Notice of the public hearing was published in the Austin American Statesman on May 11, 2018, and the public hearing was scheduled and held in City Council chambers on May 24, 2018.

Updated Project Plan

The Project Plan amendments include updates to the planning documents, project design, a new financing plan, and an extension to the duration of TIRZ No. 17. The planning documents and subsequent project designs support the vision to transform Austin's Waller Creek from an ignored and dilapidated creek system into a signature park and public space within the heart of downtown Austin. Informed by the groundwork completed as part of the Waller Creek Master Plan (ROMA Design Group, June 2010), The Chain of Parks design plan is the planning tool directing the vision for the Waller Creek District.

Waller Creek and the Chain of Parks

The City of Austin, in partnership with the Waller Creek Conservancy, is developing *the Parks* along a restored Waller Creek in downtown Austin. Extending from Waterloo Park to Lady Bird Lake, The Chain of Parks will include 35-acres of revitalized and newly designed public open space along 1.5 miles of a restored Waller Creek. Within the public open space will be three miles of new hike and bike trails, world class art installations, and engaging cultural programs for all. A map of the proposed projects is shown as Exhibit B. Historically plagued by flash floods and undesirable uses, the new park and open space district will reintroduce Waller Creek to the City; transforming a forgotten place into a signature destination for Austinites and visitors alike.

Design Plan

In November 2011, the City of Austin and Waller Creek Conservancy partnered to launch *Design Waller Creek: A Competition* an international design competition. The competition called for submissions from teams of landscape architects and architects to create ideas for transforming Waller Creek; creating vibrant and safe place that is thoughtfully integrated into the fabric of the City and our cultural traditions. Design Waller Creek was founded on key principles, as articulated through past planning efforts and community outreach. These principals include:

1. Establish an armature for an urban district
2. Connect Downtown and East Austin
3. Encourage Redevelopment
4. Engage the Creek
5. Provide Access
6. Manage Sound along the Creek
7. Maximize Non-exclusionary uses
8. Create a sustainable District
9. Create, Reclaim and Restore Parkland
10. Protect and Enhance Ecological Diversity

After a year-long competitive process, the multidisciplinary design team led by Michael Van Valkenburgh Associates (MVVA) and Thomas Phifer and Partners (TPP) was selected and affirmed by Council. Their design concept builds on the backbone of an ecologically restored Creek to create a Chain of Parks that revitalizes the existing Waterloo Park and historic Palm Park and

creates new park spaces such as the Refuge and Creek Delta. The design concept considered essential criteria: open up, connect, energize, and honor.

Open Up: Open up the creek to the City. Widen its path and shoreline wherever possible. Make entry easy. Create gradual slopes down to it often. Make its waters, structures, and trees a spectacle in the City and wonderful to occupy. Make the whole park a seamlessly felt, seen, and alluring central destination.

Connect: Assemble the complex mosaic of contiguous city areas from University of Texas to Lady Bird Lake and from East to West Austin, not only with the central Waller Creek hike and bike trail and a variety of park pathways but also with signature bridges interlaced with the trail system to connect people with diverse and stimulating activities within and near the district.

Energize: Use every opportunity to create larger singular landscape places, each with its unique identity and program options. These areas—for activities such as concerts, public events, resting in the shade, and learning about the creek’s flora and fauna—will be places where people linger before curiosity moves them to the next destination. Each will have its own spectacular quality — its “wow” — complementing the otherwise understated beauty of Waller Creek as we reimagine it. In each, that archetypal urban experience — people-watching — will stimulate civic participation and unity.

Honor: Honor the past of Austin, of Waller Creek, and of the many generations of engineers and builders who erected a stone wall here and an elegant bridge there. Preserve and renovate these marks of the past so that history is present, not erased and forgotten. Similarly, honor and expand the previously established social spaces along the creek, for example the great lawn of Waterloo Park.

On October 18, 2012, City Council unanimously approved the MVVA/TPP team and the Waller Creek Design Plan.

After the Waller Creek Design Plan was approved, the City of Austin and WCC engaged MVVA to begin the *Creek Corridor Framework Plan*. The *Framework Plan* was the first comprehensive effort to establish a set of technical guidelines and creek sections for the Waller Creek District. It compiled details on existing conditions, utility locations, habitat, hydrological conditions and property ownership. Furthermore, it established specific trail alignments, environmental strategies, and utility work needed to complete the project. The Framework Plan was completed in 2015 and serves as the foundation for future design efforts.

Since 2015, the project team has advanced design of individual parks. Waterloo Park will complete design in summer 2018 and has already broken ground on a key piece of infrastructure, the structured lawn. The structured lawn will complete construction in summer 2018, allowing for the advancement of full Waterloo Park construction. Waller Delta and Palm Park are in design with estimated completion of design in late 2018. The Refuge and Narrows parks are in the concept design phase and are poised to move forward.

With each phase of design, community input has been an essential part of the planning process. Community meetings, stakeholder working groups, and online surveys have provided vital inputs into the design process and shaped the core values articulated above. Topics of engagement have

included play, food service, lighting, safety, materials and more. These efforts will continue in the phases outlined in Amendment No. 2.

Waller Creek and The Chain of Parks is consistent with other citywide planning initiatives such as Imagine Austin by establishing goals to bring “Nature Into the City”, develop “Complete Communities” through a connected landscape, and a Thriving” community by supporting a healthy and creativity Austin. In addition, the design concept also achieves design excellence by turning the rating system for healthy creeks, as described in the outlined in the 2013 Watershed Protection Ordinance, into cutting edge design. Finally, the design concept will uphold the highest standard of sustainability by submitting the design for SITES certification, a comprehensive rating system designed to distinguish sustainable landscapes, measure their performance and elevate their value (<http://www.sustainablesites.org>).

Project Plan

The Project Plan will support the continued transformation of the eastern side of downtown Austin into a safe, vibrant, and accessible amenity in the heart of the City, building upon the new Waller Creek Tunnel. Currently, 35-acres of public land in the Waller Creek District have limited public improvements and have fallen into disrepair. The Project Plan will further leverage the land that the Tunnel Project removes from the 100-year flood plain by turning public lands into a world-class parks amenity that provides a safer, cleaner public space. The Parks are located along lower Waller Creek between 15th Street and Lady Bird Lake. It includes two historic parks, Waterloo Park and Palm Park, and plans for future parks along the shoreline of Lady Bird Lake and at the site of the existing APD headquarters.

The current implementation plan strategically bundles geographic regions for the Parks over time in phases. This approach allows time for design development and fundraising, while delivering park spaces as quickly as possible to the community. Parks are able to serve the community individually until the entire system comes online. Surface-level improvements to the parks were not included in the original TIRZ No. 17 Project Plan or first amendment; these projects are all new scope to the Project Plan. As shown in the Project Plan Map (Exhibit B), the Waller Creek District includes the Waterloo Park Link, Creek Delta Link, Connectivity Link, The Refuge and the Pontoon Bridge.

Waterloo Park Link

The largest of the Parks, Waterloo Park will be a gathering space for the City of Austin, including: a civic lawn, a performing arts venue, food service in the park, unique hill country gardens, wetlands, and extensive nature-based play areas. Within this link, a connection to Symphony Square and restoration of the creek and adjacent open space will be completed. Collectively, the space will be programmed with complementary activities furthering the mission to promote engaging art and educational activities.

Creek Delta Link

Creek Delta will be the gateway to the Waller Creek District from Lady Bird Lake and the beloved Ann and Roy Butler (Butler) Trail system. Stretching from Lady Bird Lake to 4th Street, the Creek

Delta meanders through a variety of urban landscapes creating opportunities for diverse nature and a stable channel within Waller Creek. The hike and bike trail will follow the path of the creek, allowing users to experience the natural ecology of the tree canopy as well as more immersive experiences along the Creek's banks. At strategic locations, the trail system will connect at street level providing vital connectivity to downtown, the expanded Downtown MetroRail Station, on-street bike infrastructure and the Rainey Street District.

Within the Creek Delta Link, the historic Palm Park will be revitalized. Calling on the history of surrounding neighborhoods, Palm Park will be an important gathering place for families and children in downtown. The park will have nature-based playscapes, splash pads, picnic and grilling areas, and important connections to East Austin.

As part of the Waller Creek Tunnel project, key property located between 4th and 5th Street along the IH35 Frontage Road was acquired to construct the 4th Street Side Inlet. It has been determined that this 4th Street site offers the best potential for a primary operations & maintenance (O&M) facility. Additionally, the City (the Watershed Protection Department and the Parks and Recreation Department) have identified the need for a shared-use O&M facility within the downtown zone to optimize Waller Creek Tunnel operations and improve daily servicing for Austin's downtown parks system. Because the City will retain ownership of this property, it is the most practical solution for both the City and WCC to establish an O&M presence realized through a shared-use facility.

Connectivity: 5th to 11th Street

Connecting the north and south portions of the Parks will be achieved through trail improvements between 5th and 11th Street. Trails and park spaces will connect Waterloo Park and Symphony Square to Palm Park and Lady Bird Lake.

Referred to as The Narrows, 5th to 7th Street is the most urbanized section of the Creek, highlighting the unique challenge of creating accessible pathways and restored nature in the urban core. Embracing the challenge, critical trail connections will be built to provide access to historic downtown, the Red River Cultural District and future park and open space within the district. Nature will also be restored throughout; providing habitat in the creek and unique experiences for visitors to engage with nature in the heart of the city.

The Refuge

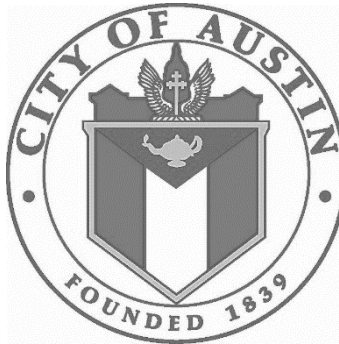
The Refuge will be a completely new park between 7th and 9th Street where the current Austin Police Department Headquarters and Municipal Court is located. The Refuge will offer an immersive experience for adults and children to engage with the Creek. This will provide a vital programmatic space for efforts to connect all members of our community with meaningful experiences in nature.

Pontoon Bridge

Pontoon Bridge is a unique bridge connecting the north and south shore of Lady Bird Lake and the Butler Trail System to the Waller Creek District. Once complete, the bridge will open up access to downtown, and beyond, to South Austin. Residents of South Austin will be able to walk

or bike from the South to downtown, the Chain of Parks, UT, and more, all while enjoying a restored Waller Creek.

The investment in the Parks represents a new scope for the TIRZ. It will deliver on the promise of the Tunnel; providing economic benefits to the Zone and an amenity for the broader community.



Updated Reinvestment Zone Financing Plan

The project cost included are based on estimates completed for the City of Austin and the Waller Creek Conservancy as part of the Waller Creek Design Plan and subsequent park design updates. The approved financing plan did not account for any of these surface-level park improvements. This plan is being amended to reflect the addition of the Parks projects and their estimated costs in 2018 dollars with escalation built in for projects being delivered in future years.

Project Costs

As shown below, total project costs include construction, land acquisition, design/engineering, administration, and contingency costs. A significant portion of the project is funded through other existing and proposed non-project sources. The current estimated total cost of the project is an estimated \$355,000,000, including operations and maintenance, through 2041. Of this total, an estimated \$246,000,000 is capital cost and \$110,000,000 of that capital cost is proposed to be added to the Reinvestment Zone Financing Plan in this amendment.

Updated List of Estimated Project Costs of the Zone

As previously indicated, the Parks will be designed and constructed between present day and 2026. The table below depicts the estimated project costs developed by the design team and are stated in 2018 dollars with escalation built in for projects being delivered in future years. The total project cost is stated in the “Total” column, while the Reinvestment Zone eligible costs are listed in the “TIRZ” column. Non-project costs are paid for through a combination of existing City funds, private philanthropy, and contributions from adjacent property owners and developers. The funding match from the Waller Creek Conservancy will be contributed on a project-by-project basis with a major emphasis on funding long-term operations and maintenance, which will be financed through fundraising, earned revenue, and contributions from the Downtown Austin Alliance under their Public Improvement District (PID). The match funding and other City sources will be managed through the Phase Plan process as outlined in the Joint Development Agreement. These costs were not previously estimated in the TIRZ No. 17 Project Plan or the first amendment to the Plan.

Waller Creek Chain of Parks | Project Plan

	Total	WCC/Developers	State	CoA	TIRZ
City Staff Resources	\$ 2,500,000	\$ -	\$ -	\$ -	\$ 2,500,000
Waterloo Park Link	\$ 135,950,000	\$ 92,200,000	\$ 850,000	\$ 15,600,000	\$ 27,300,000
Creek Delta Link	\$ 108,700,000	\$ 50,500,000	\$ -	\$ 21,500,000	\$ 36,700,000
Connectivity: 5th-11th Streets	\$ 50,000,000	\$ 20,500,000	\$ -	\$ 4,000,000	\$ 25,500,000
Pontoon Bridge	\$ 31,750,000	\$ 23,750,000	\$ -	\$ -	\$ 8,000,000
Refuge	\$ 56,750,000	\$ 46,750,000	\$ -	\$ -	\$ 10,000,000
Endowment	\$ 5,000,000	\$ 5,000,000	\$ -	\$ -	\$ -
	Total	WCC/Developers	State	CoA	TIF
Total Capital Cost	\$ 245,650,000	\$ 93,700,000	\$ 850,000	\$ 41,100,000	\$ 110,000,000
Total O&M Cost	\$ 109,250,000	\$ 109,250,000	\$ -	\$ -	\$ -
TOTAL PROJECT COST	\$ 354,900,000	\$ 202,950,000	\$ 850,000	\$ 41,100,000	\$ 110,000,000

Notes:

All project costs include estimated operations and maintenance costs from park opening through 2041.

Assumes high level of operations and maintenance as described in section 2.2.B of the Operating and Management Agreement between WCC and CoA.

Zone Administration is an eligible TIRZ No. 17 expense that was included in the original TIRZ No. 17 project plan and mentioned in Amendment 1. Expenses were previously estimated at \$30,000 annually. These costs are currently being absorbed by the City of Austin and have not been charged to the TIRZ No. 17 to date. As part of the amendment, the City anticipates an additional \$2.5M in costs associated with zone administration against the available TIRZ No. 17 funds and includes the allowance for additional staffing beginning in Fiscal Year 2018-19. This is reflected above in the City Staff Resources cost.

Capital Reserve Fund will be included as part of the annual TIRZ No. 17 appropriations for each project and utilized as-needed for capital repair and reinvestment. The Waller Creek Conservancy will forecast these capital reinvestment needs as part of the comprehensive operations and maintenance plan for each project and will contribute the necessary match to cover these costs through their fundraising efforts.

Updated Economic Feasibility Studies

Capital Market Research prepared economic models of development resulting from the project and increases in tax revenues resulting from the development. The project was found to be economically viable. These economic studies are on file with the Board of the TIRZ No. 17 and the City Council of the City, and are incorporated by reference into this project plan. The Waller Creek TIF estimated property valuations are included in Exhibit D.

Updated Captured Value of the Zone During Each Year of its Existence

The estimated captured appraised value of TIRZ No. 17 during each year of its existence has been updated based on the market research completed by Capitol Market Research (CMR). Updated market demand and absorption and projections in assessed valuation increases are included. (Exhibit D).

Exhibit E shows the estimate net City revenue included in TIRZ No. 17, as well as estimated debt service cost for the additional \$110 million in debt to be issued for the proposed projects included in the Plan.

Updated Estimated Amount of Bonded Indebtedness to be Incurred

The estimated amount of bonded indebtedness related to the updated project plan to be incurred by the TIRZ No. 17 is shown below:

Estimated Additional TIRZ No. 17 revenue	\$255 M
Estimated Debt service required for TIRZ No. 17, Amendment #2 (\$110 M debt issuance)	\$179 M
Estimated remaining balance in 2041	\$75 M

Updated Description of the Method of Financing All Estimated Projects Costs and the Expected Sources of Revenue to Finance or Pay Project Costs

The updated financing plan includes the following changes that, when combined, results in a sound and stable financing plan for the Waller Creek tunnel project.

- Reducing debt service costs by phasing the issuance of debt to more closely match project spending and anticipating savings from a more favorable interest environment
- Applying additional funding sources, such as interest earnings, to reduce the amount of costs to be financed with debt

The combination of the increase in value during the current term of the TIRZ associated with Waller Creek Tunnel and these new investments in the Parks, plus extending the duration of TIRZ No. 17 for the City of Austin's participation at 100% capture, allows for issuance of additional debt to finance the additional projects included in the updated Project Plan. All other funding sources from the previous agreement as amended remain in place as well.

The appropriation and bond sale schedules for the TIRZ No. 17 are projected through 2025 and are based on individual project timelines and related spending plans from the Project Plan table. These schedules are contingent upon on the cash flow and revenue models described above and are subject to change based on current economic conditions.

Updated Tax Rates Affecting the Tax Increment Revenue

Amendment 2 includes only the City of Austin contributing 100% of their collected incremental revenue to the zone from 2029 – 2041. Tax rates currently in effect are shown below.

Taxing Unit	Total Tax Rate	Tax Rate Dedicated	% Dedicated
City of Austin	\$0.4571/\$100	\$0.4571/\$100	100%

Updated Duration of the Zone

The duration of the original TIRZ No. 17 was 20 years. The Austin City Council established January 1, 2008 as the first year of the Zone, with the base valuation dated January 1, 2007. January 1, 2008 was the first date for which TIRZ No. 17 captured appraised value was recorded. TIRZ No. 17 is set to terminate on September 30, 2028, or the date on which the project has been fully implemented and all Project Costs of the TIRZ No. 17 District, including any debt or interest on that debt, issued by the City in accordance with the financing plan have been paid or otherwise satisfied in full. In this Amendment, the City seeks to extend the duration of the TIRZ No. 17. The amended end date is September 30, 2041. The base year of TIRZ No. 17 will remain January 1, 2007.

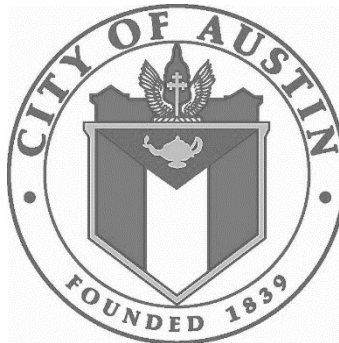


Exhibit A: Map of TIRZ No. 17

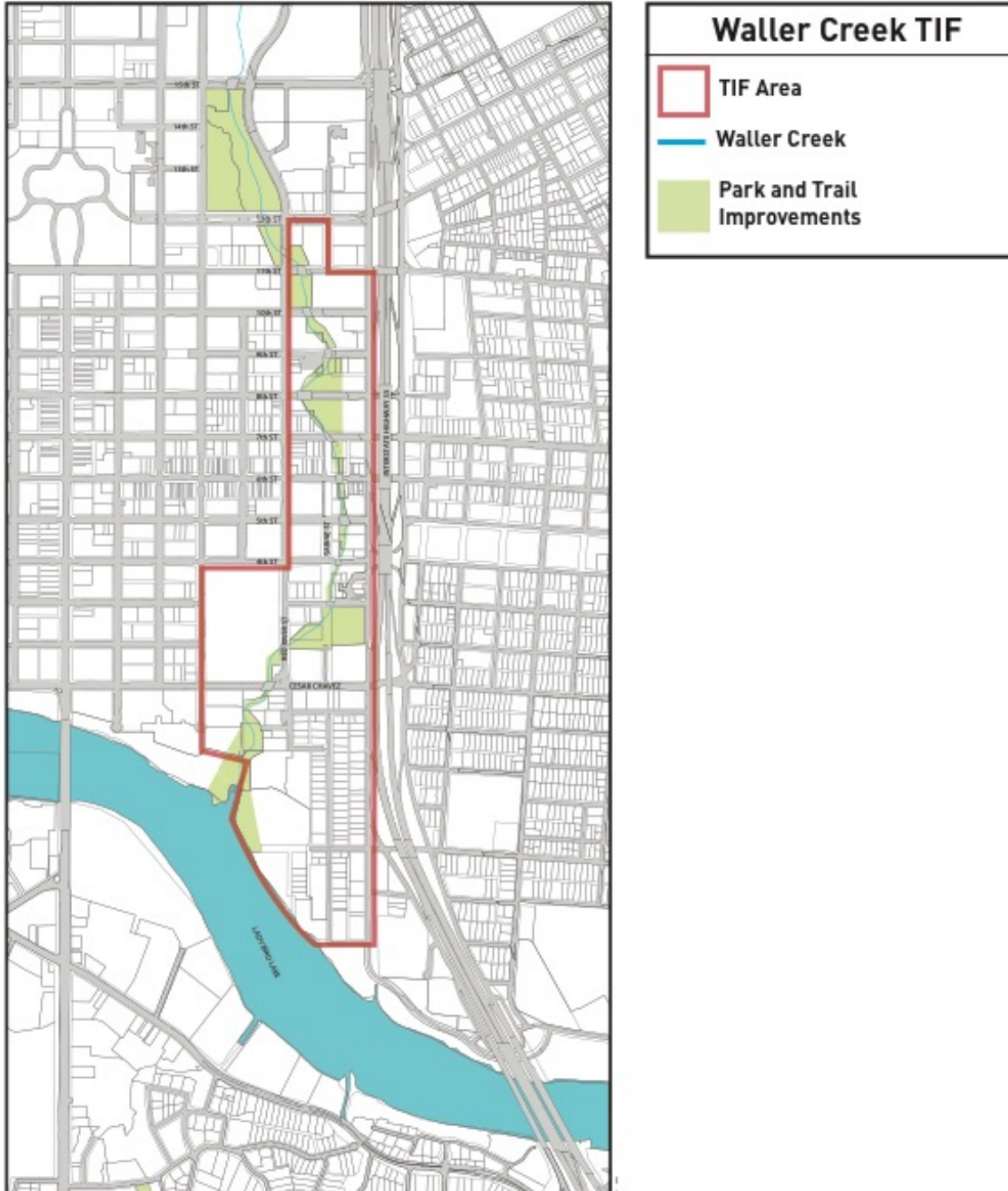


Exhibit B: Map of Projects Proposed in Amendment No. 2

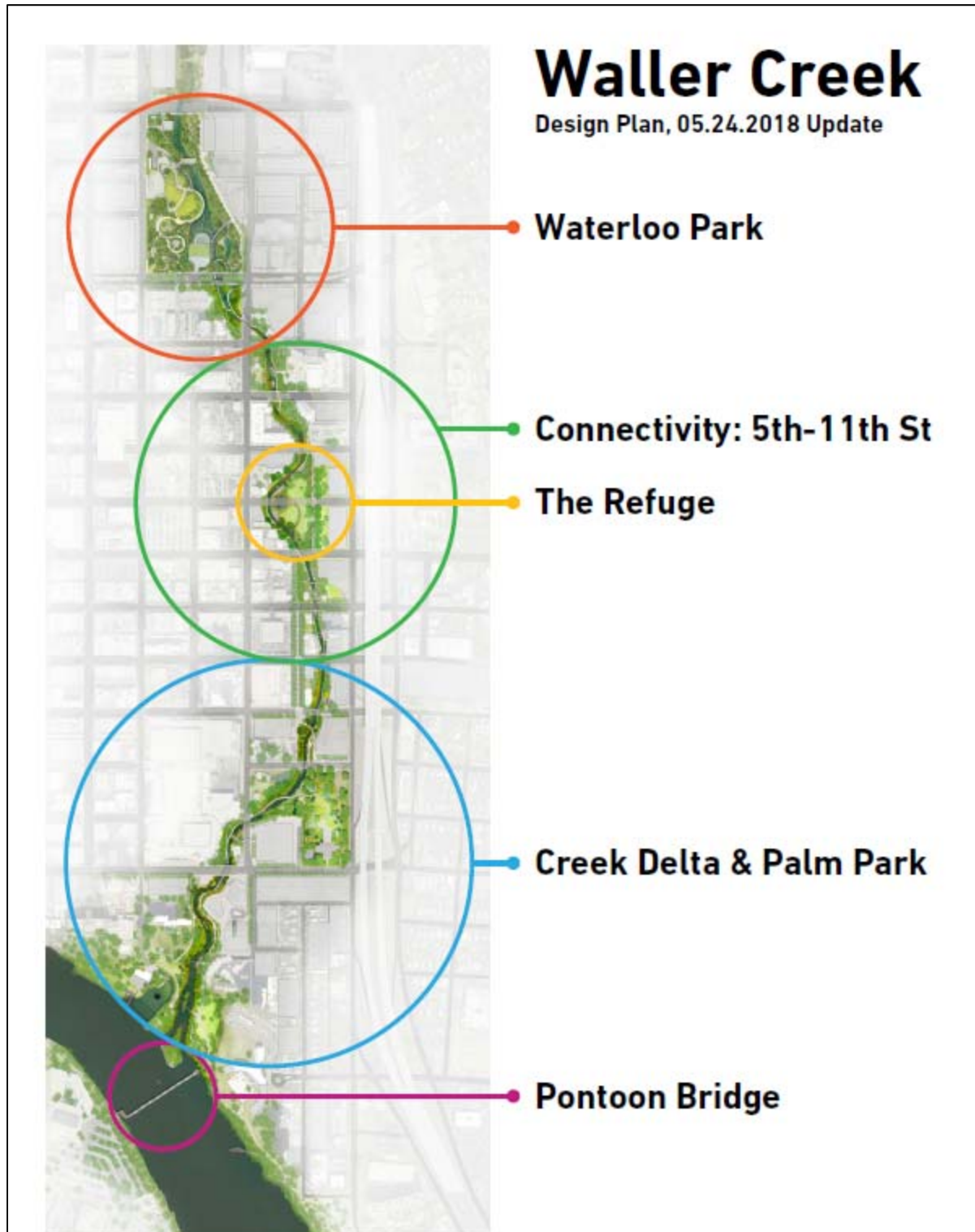
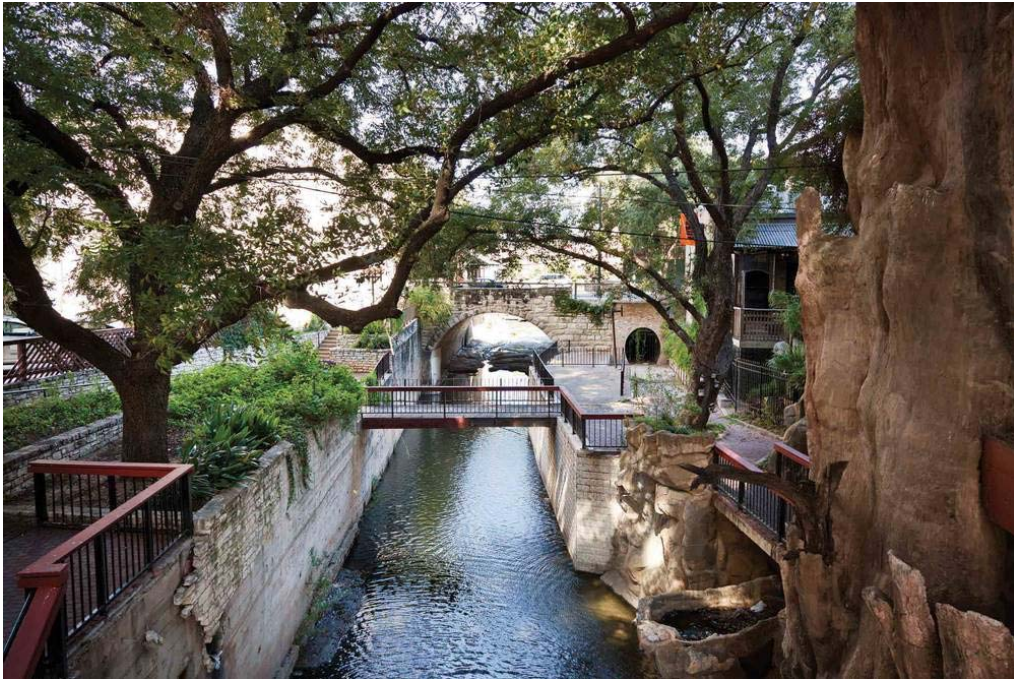


Exhibit C: Downtown Parks and Potential Property Value Implications in Austin

Downtown Parks and Potential Property Value Implications in Austin

Spring 2018



austintexas.gov



Overview

There is a long understanding of the influence that parks and open space have on property values. Urban real estate markets have consistently shown across time that many are willing to pay a larger amount for property located close to parks and open space areas than for a property that does not offer this amenity. The higher value of this property means that their owners pay higher property taxes. In effect, this represents a “capitalization” of park land into increased property values of proximate land owners. Termed the “proximate principle” by Dr. John Crompton of Texas A&M, the idea dates back to the first half of the nineteenth century in England, where it started as a strategy used by private developers to raise the value of homes in their developments. Once implemented, park expenditures came to be seen as investments rather than costs in the minds of taxpayers and elected officials, facilitating public acceptance of publically-funded parks as an integral component of urban development.

During the mid-nineteenth century, Frederick Law Olmsted brought the idea of the proximate principle to the U.S. from England, broadcast it widely based on its intuitive appeal, and provided data from his New York Central Park project, which appeared to empirically confirm it. In 1919, his son Frederick Law Olmsted, Jr. wrote: “It has been fully established that...a local park of suitable size, location and character, and of which the proper public maintenance is reasonably assured, adds more to the value of the remaining land in the residential area which it serves than the value of the land withdrawn to create it.” Hence, Olmsted’s data and advocacy were used to justify major early park investments in many U.S. cities.

The Work of Dr. John Crompton

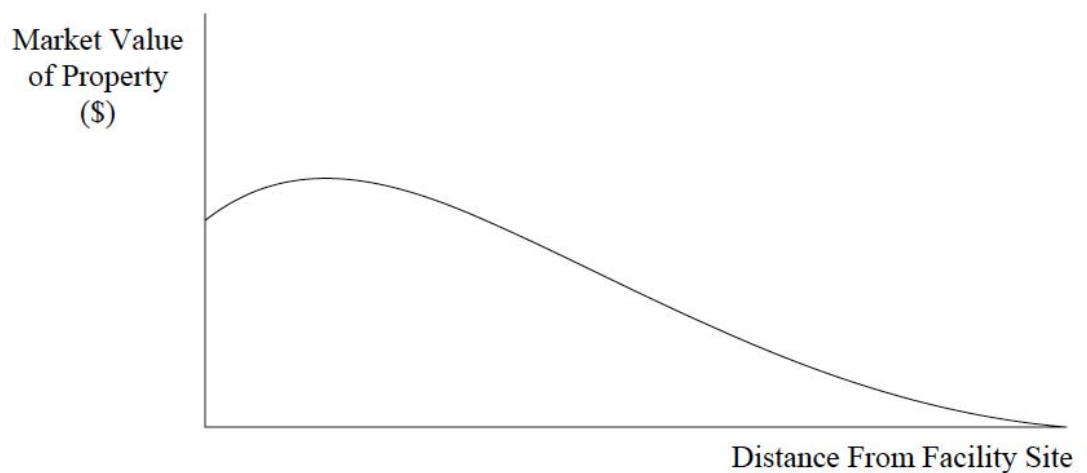
More recently, academic research has better defined and calibrated the range and scope of the impacts of parks on property values. Specifically, the questions of “how much and how far” have been addressed. Crompton writes that “while a definitive generalizable answer is not feasible given the substantial variation in both the size, usage and design of park lands in the studies, and disparity in the residential areas around them, which were investigated. However, some point of departure based on the findings reported here is needed for decision-makers in communities who try to adapt these results to their local context. To meet this need, it is suggested that **a positive impact of 20% on property values** abutting or fronting a passive park area is a reasonable starting point guideline.

By the same token, Crompton also speaks to “how far:”

There is consensus (that there is a) substantial impact up to 500-600 feet (typically three blocks away from the park). In the case of community-sized parks (say upwards of 40

acres), it tended to extend out to 1,500-2,000 feet, but even in those cases the premium was small after 500-600 feet. The area of proximate impact of a park should be limited to 500 feet or three blocks. **The empirical results suggest this is likely to capture almost all the premium from small neighborhood parks and 75% of the premium from relatively large parks. The remaining 25% is likely to be dissipated over properties between 500 and 2000 feet.**

The following diagram from Crompton provides an illustration of the general pattern of influence associated with parks on property values.



THE PROXIMATE PRINCIPLE: The Impact of Parks, Open Space and Water Features on Residential Property Values and the Property Tax Base by John L. Crompton, Distinguished Professor Texas A&M University.

https://www.researchgate.net/profile/John_Crompton3/publication/316090725_THE_PROXIMATE_PRINCIPLE_The_Impact_of_Parks_Open_Space_and_Water_Features_on_Residential_Property_Values_and_the_Property_Tax_Base/links/58efb7630f7e9b6f82dbbf2f/THE-PROXIMATE-PRINCIPLE-The-Impact-of-Parks-Open-Space-and-Water-Features-on-Residential-Property-Values-and-the-Property-Tax-Base.pdf

2017 HR&A Waller Creek Study

In 2017, HR&A Advisors (HR&A) was tasked by the Waller Creek Conservancy with measuring the economic and fiscal impacts of developing the Waller Creek chain of parks (the Park) to complement the restoration of Waller Creek. As part of that effort, the analysis considered the value premium and accelerated development activity anticipated in three Park-adjacent geographies. As shown in Figure 3, HR&A calculated the incremental value generated by the

Park in the following areas: 1) the TIRZ, 2) the wider Waller Creek District, and 3) the Secondary Area, which encompasses approximately a ½-mile radius from the Park edges.

Figure 3: TIRZ, Waller Creek District, and Secondary Area



The methodology employed to evaluate the potential economic benefits of the Park was based on a review of local market conditions and comparable open space projects from across the country. HR&A first established baseline market conditions in the vicinity of the Park based on third-party research and data. HR&A reviewed background materials on the district, including the market analysis report commissioned by WCC, which identified market trends in Downtown Austin, established a baseline condition for new development, and projected the future growth and absorption in TIRZ and the wider Waller Creek District.

To understand the impact that the Park would have on these baseline conditions, HR&A researched comparable public space projects from around the country. Based on nearly three decades of parks-related experience and knowledge, HR&A identified a long list of 10 to 12 potential peer parks. **HR&A culled the long list to four comparable park examples, and synthesized the quantifiable economic impact that each of the four parks had on its surrounding neighborhoods. These economic benefits included property value premiums, park-oriented development, tourism and spending impacts, and construction activity.**

Additional benefits such as neighborhood connectivity, social cohesion, and environmental impacts were also noted.

Figure 6: Summary of Park Impacts in Value Premiums

Park	Study Area	Value Premium	Implications for Waller Creek
Klyde Warren	Adjacent	42-60% ²³	Park-adjacent commercial properties can experience significant increases in value
High Line	½ mile	10% ²⁴	Similar boundary as Secondary Area with strong market demand
Katy Trail	¼ mile	25% ²⁵	Similar boundary as Waller Creek District with a similarly low FAR
Rose Kennedy	¼ mile	31% ²⁶	Limited capacity for new development in a high-demand market increased values of existing properties

²¹ Includes public, private, and institutional investment

²² Includes benefit attributable to burying of the Freeway

²³ Phil Puckett, CBRE; market value of selected class-A office buildings pre- and post-park

²⁴ HR&A High Line Economic Impact Assessment Presentation, 2012; adjusted for 2016 revision

²⁵ Dallas Morning News

²⁶ HR&A Rose Kennedy Greenway: Creating Long-Term Value 2010

The overall findings were as follows

- **Value premium.** The Park is likely to create a 20% value premium on existing and new properties in the TIRZ, including modest impacts since the Park announcement in 2010.
- **Faster development.** Future development activity in the TIRZ would nearly double baseline projections to up to 585,000 SF of new development annually, including 162,000 SF of office, 320 multifamily rental units, and 140 condo units.⁸
- **Denser typologies.** Reinforced demand could increase overall development capacity in the 6.9 million SF TIRZ area by 25%. HR&A then applied a premium to the baseline assessed values in each of the three geographies based on the value premiums observed in similar impact areas in our case studies.

Specifically related to the impact of the Park beyond the TIRZ itself,

HR&A approximated the assessed value for the Secondary Area by applying an order of magnitude assessed value per net acre consistent with the one observed in the Waller Creek District. Based on the demand for office, residential multifamily, attached housing, and condos estimated by (the market study) for the TIRZ and the Waller Creek District, we projected the annual demand for the next 24 years in each of the three geographies. For the Secondary Area, we assumed that 100% of demand projected by (the market

study) in Downtown Austin could be captured given the similar size and borders of Downtown and the Secondary Area.

Overall, the HR&A study is consistent with the academic literature as summarized by Crompton, both in terms of the order of magnitude of parks on adjacent property values and the implications, especially for “signature parks,” beyond the typical catchment area.

Conclusions

The factors that have driven the sharp increase in density, values, and overall taxbase in downtown Austin show no signs of abating. The growing presence of national credit tenants, augmented by the desire and need to provide the lifestyle amenities that support their workforce (and well-heeled tourists and residents), has helped create substantial demand for upscale offices, entertainment, and housing. A missing component that could bolster this already strong market is enhanced parks and outdoor space, as downtown Austin lacks the feature park amenities found in many of the other modern urban centers with large concentrations of these types of firms, residents, and visitors. Completion of the Waller Creek project addresses this issue, and should enhance what is already a robust central city property taxbase.

There is value to Austin beyond the implications for property values and recreation, as outlined by Crompton:

There are at least three additional sources of economic value attributable to park and open space amenities which are not captured by this capitalization approach.

- First, the capitalization of park and open space value into property prices. . . does not capture the “public” benefits that accrue to those outside the proximate influence from such features as wildlife habitat, improved water quality, reduced soil erosion, reduced flooding, et al.
- Second, there is evidence to suggest that investment in parks affects the comparative advantage of a community in attracting future businesses and residents. However, the proximate capitalization approach does not capture the secondary economic impacts attributable to park provision that accrue from such sources.
- Third, relatively large parks .. are likely to impact property values for distances beyond three blocks, and omission of these premiums may lead to underestimation of proximate impact that could be substantial. In addition, large parks are likely to have value to populations beyond the radius that can be captured by proximate capitalization even if that radius is extended out to 2000 or 3000 feet. This occurs because some users of a large park are likely to come

from beyond this radius e.g. two or three miles distance. The benefits accruing to these users cannot be captured in capitalization calculations.

As the City contemplates extending the duration of the Waller Creek TIF, the financial projections are limited to the TIF itself, and therefore make no allowance for positive “spillover” to the value of other properties in area as a result of new development (beyond inflation), which could occur. The literature and experience of comparable communities suggests otherwise, and moreover aligns well with the desires of businesses and residents who seek to be in Austin’s urban core.

Appendix 1

Austin Area Long-Term Economic Forecast

Growth in the Austin metro area (MSA) abated to some degree over the past several years, as the combination of slower national growth, rising costs, and the law of large numbers combined to curtail the rate of expansion. Job growth (as measured by the non-ag employer wage & salary survey) decelerated during 2016; with 36,700 net new jobs added, a pace of 3.8% was off from 4.4% during 2015. Most of this growth was found in the commercial sectors of the economy, reflecting continued population growth, although consumer spending has returned to long-term trend levels. The slowdown became more pronounced in 2017, with a net gain of 27,300 jobs, 2.7 percent growth. In recent years, the private sector has led the way, but the current growth rate actually is equivalent on both the public and private sector side of the equation. While growth is slowing, Austin continues to expand more rapidly than Texas or the nation as a whole.

Short-term local economic trends are largely a function of factors that influence demand, while long-run performance is more strongly shaped by capacity, clusters, and areas of competitive advantage that are reflected in the structure of the regional economy. In that light, the rising presence of global firms in Austin means that national and international trends increasingly influence the course of the local economy. In addition to the obvious connection for the bulk of local device technology firms, information and social technology and professional services (which also are trending toward serving a global customer base) are rapidly growing in Central Texas. Tourism is also an important component of the regional economy that responds to external trends. Meanwhile, local consumer confidence is influenced by the overall national situation and outlook.

At the same time, the growing appeal of the region as a site for expansion and relocation (of both people and firms) helps Austin consistently perform “above the line” relative to the U.S. as a whole. As a result, the outlook is bright, with most aggregate economic measures expected to perform well over the forecast horizon. Specifically, MSA population should grow at a compound annual rate of 2.8 percent through 2041, while the local job base will rise 2.4 percent and personal income will grow 6.5 percent during the same period. Factors that will continue to shape the area’s future include:

- *Ongoing migration to the region and downtown.* While population growth will tend to follow the local economic cycle to some degree, the longer-term outlook is for Austin to remain an attractive site for relocation, especially for those whose income is not tied to the local economy. Attraction of people is arguably as important to Austin’s economic future (and tax base) as attraction of firms, and the community

will be well served by remaining an attractive destination for those who can afford to live wherever they choose.

- *Continued strength of the traditional pillars of the local economy.* Sometimes, it's hard to remember that Austin traditionally is a government and university town. While private sector side of the economy has grown by leaps and bounds over the past several decades, the public sector (which for these purposes include UT) still accounts for 17.7 percent of the MSA job base, compared to 15.8 percent in the rest of the state. While this gap may narrow over time, the almost 200,000 public sector jobs in the region are an important source of income and economic stability.
- *Maintenance of a diversified technology base.* The local technology sector has evolved from devices to include a range of activity that leverages intellectual property, and increasingly reflects the integration of information technology into "non-technology" products and services. Its tough to say exactly how this will evolve; the key is for Austin to remain a center of whatever the next iteration(s) will be.
- *Commercialization of emerging medical capacity.* Dell Medical School at UT-Austin is but the most visible sign of the emerging capacity in Austin around medicine and innovation. While this remains early stage, the opportunity is substantial, as most of the ingredients (workforce, venture capital, professional services support, overall business climate) are favorable for significant commercialization of the intellectual property that emerges in the medical space in Austin in the near future.
- *Balancing tourism with quality of life.* Much of what makes Austin attractive to residents also appeals to visitors, a fact accelerated by enormous growth in recent years around tourism infrastructure (especially related to lodging) and growing number of events that bring tourists from all over the world to Central Texas. However, tourism can be fickle, and today's hot destination can easily be left behind in the search for new and interesting experiences. For many locals, that might not be such a bad thing; the goal would be to find that balance that reconciles the benefits of tourism (to the economy and City finances) with the impact of increased congestion.

In sum, the Austin area is projected to grow at a relatively rapid pace; while rates may somewhat slower than that experiences historically (due in part to the law of large numbers), the region should continue to outperform the state and nation as a whole.

Appendix 2

Trends in Downtown Austin

The overall economic boom in Austin has been especially evident downtown, as occupancy and rental rates have consistently exceeded performance citywide. The Downtown Austin Alliance (DAA) estimates that there are approximately 86,000 workers in downtown, occupying around 9 million square feet of office space (of which just less than 1 million square feet has recently been completed). Meanwhile, DAA indicates that there are slightly less than 15,000 residents within a mile of Sixth and Congress, occupying the 9,000 new housing units that have been built downtown since the turn of the century.

Downtown has become a focal point in a number of ways, including from a taxbase standpoint: Since 2006, the compound annual growth rate of the ad valorem taxbase in pace as the rest of the city – including over \$17 million last year. Said another way, the entire City property taxbase would have \$3.7 billion (or just over 3%) lower at the balance-of-the-city pace, requiring a tax rate increase of almost 1.4 cents/\$100 to make up the difference.

Figure X. Growth in Ad Valorem Taxbase

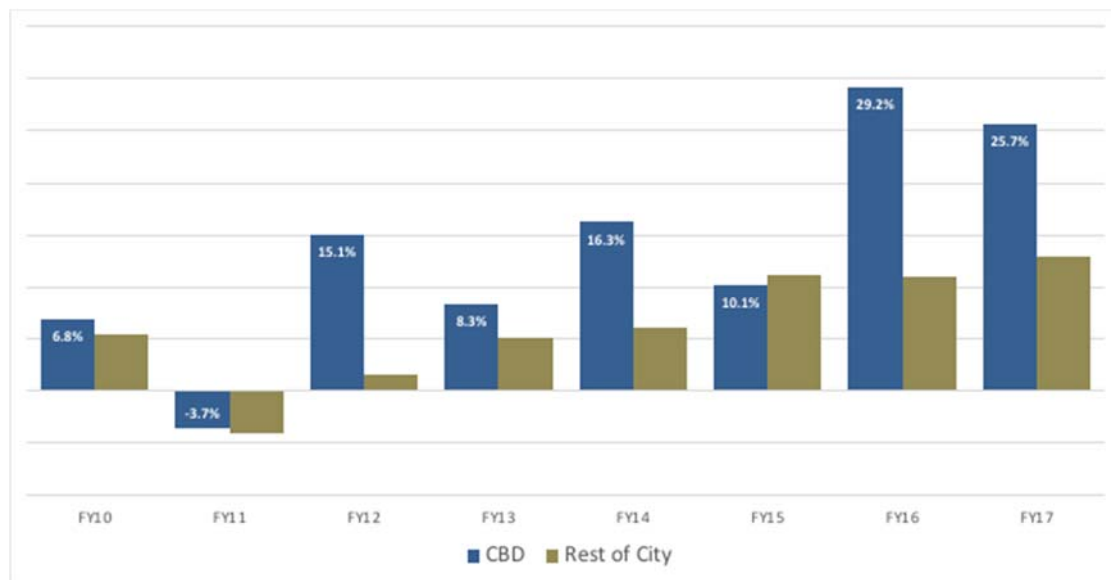


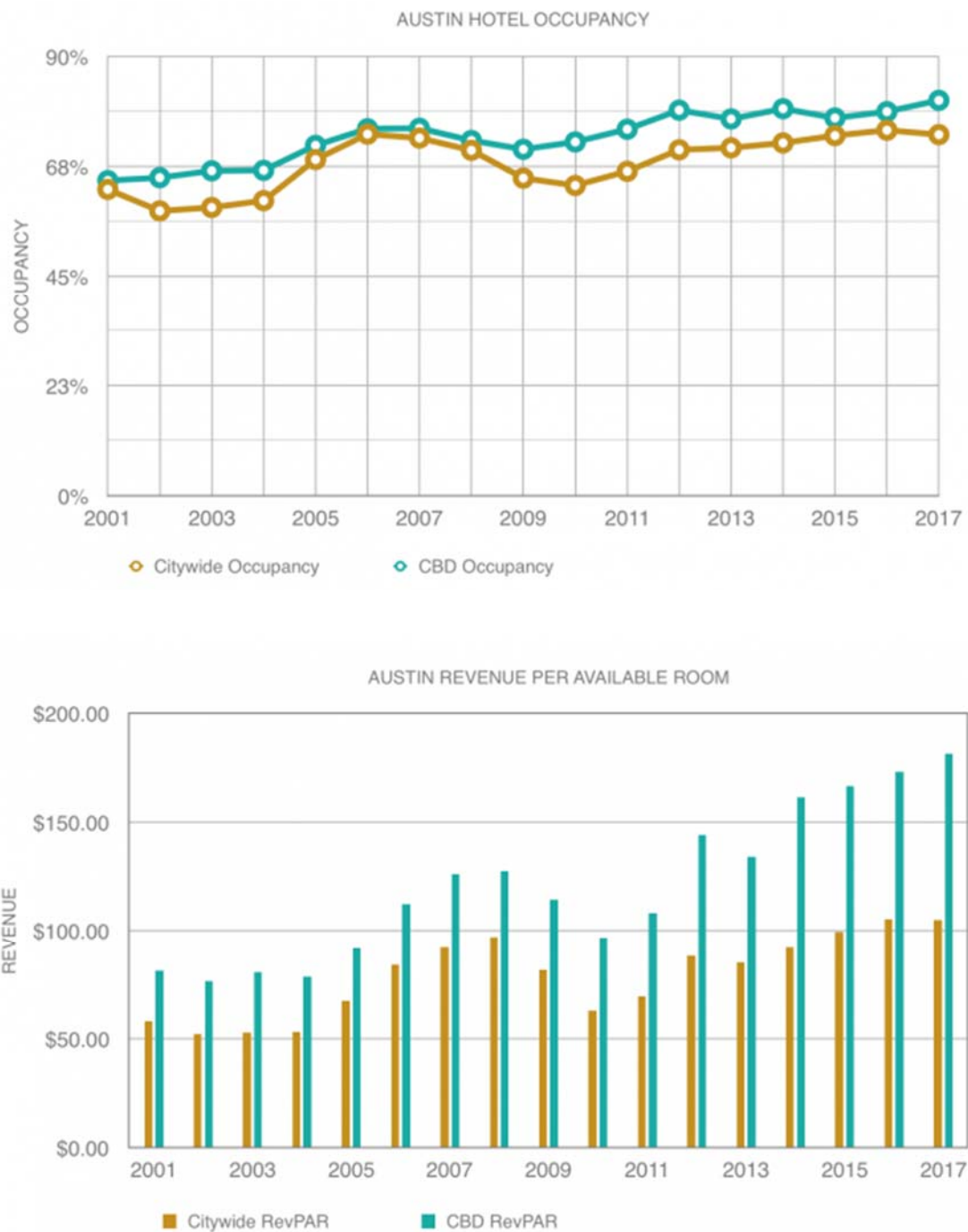
Figure X. Hotel Occupancy and Revenue/Room

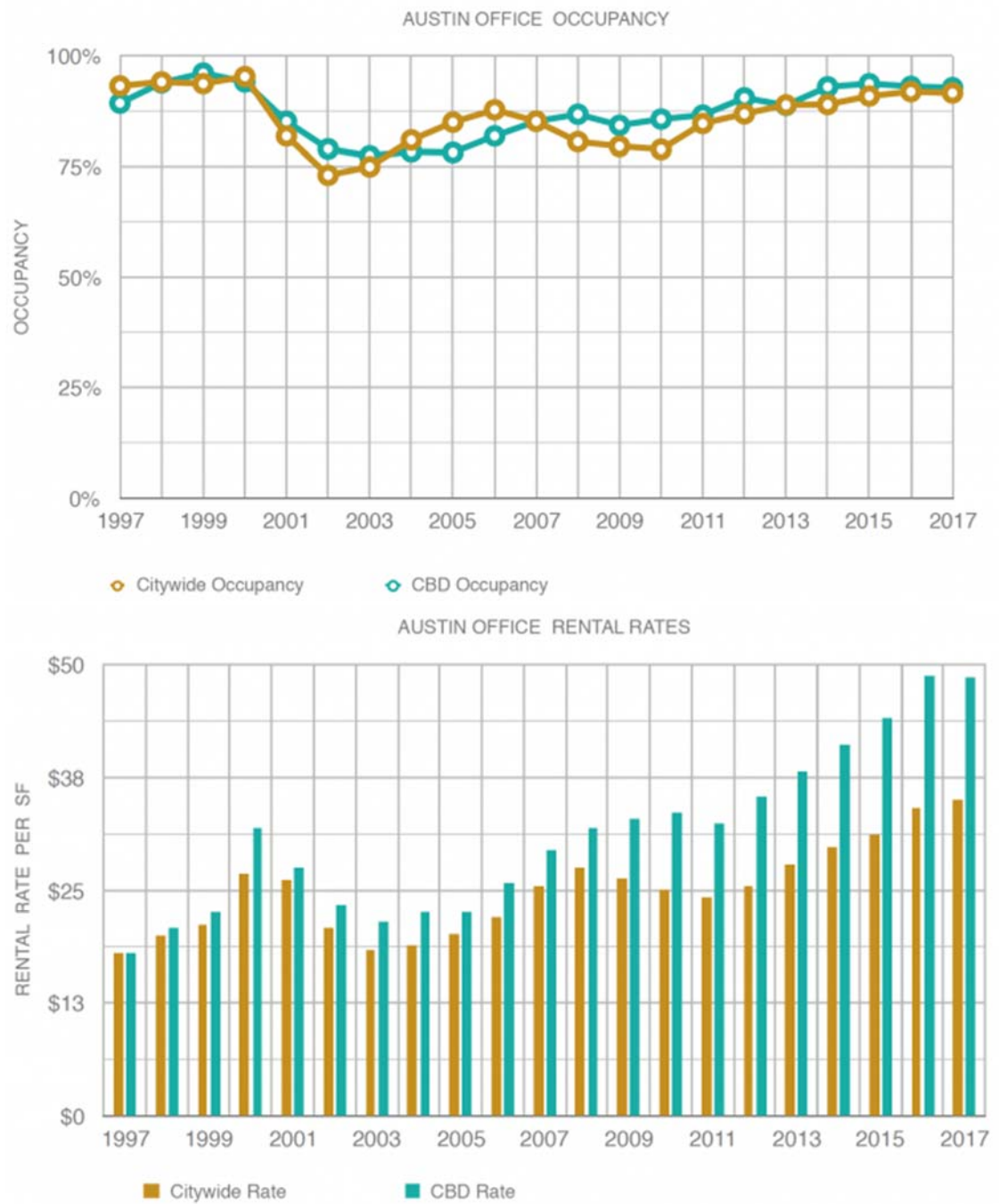
Figure X. Office Occupancy and Rental Rates

Exhibit D: Waller Creek Tax Increment Finance Analysis



Waller Creek

Tax Increment Finance (TIF) Analysis

Prepared for

City of Austin
301 West Second Street Austin,
Texas 78701

By

Capitol Market Research, Inc.
1102 West Avenue, Suite 100
Austin, Texas 78701

On

April 24, 2018



Real Estate Research, Land Development Economics & Market Analysis

April 24, 2018

Mr. Greg Canally
Deputy Chief Finance Officer
City of Austin
301 West Second Street
Austin, Texas 78701

Dear Mr. Canally:

As requested, we have completed the Tax Increment Finance (TIF) analysis for the Waller Creek Parks District in Downtown Austin, Texas. This analysis examined the potential extension of the Waller Creek TIF from 2028 to 2040 and concludes with annual estimates of value and tax revenues for the Waller Creek TIF.

The results of our analysis are provided in the report that follows. The report was prepared in its entirety by Capitol Market Research and relies primarily on original research and analysis conducted by CMR staff and secondary sources that include the U.S. Bureau of Census and the Travis Central Appraisal District. We appreciate the opportunity to provide you with this analysis and welcome any questions or comments that you may have.

Respectfully submitted,

CAPITOL MARKET RESEARCH

A handwritten signature in black ink, reading "Charles H. Heimsath". The signature is written in a cursive, flowing style.

Charles H. Heimsath
President

CHH/jav

Capitol Market Research
1102 West Avenue, Suite 100
Austin, TX 78704
(512) 476-5000

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Overview

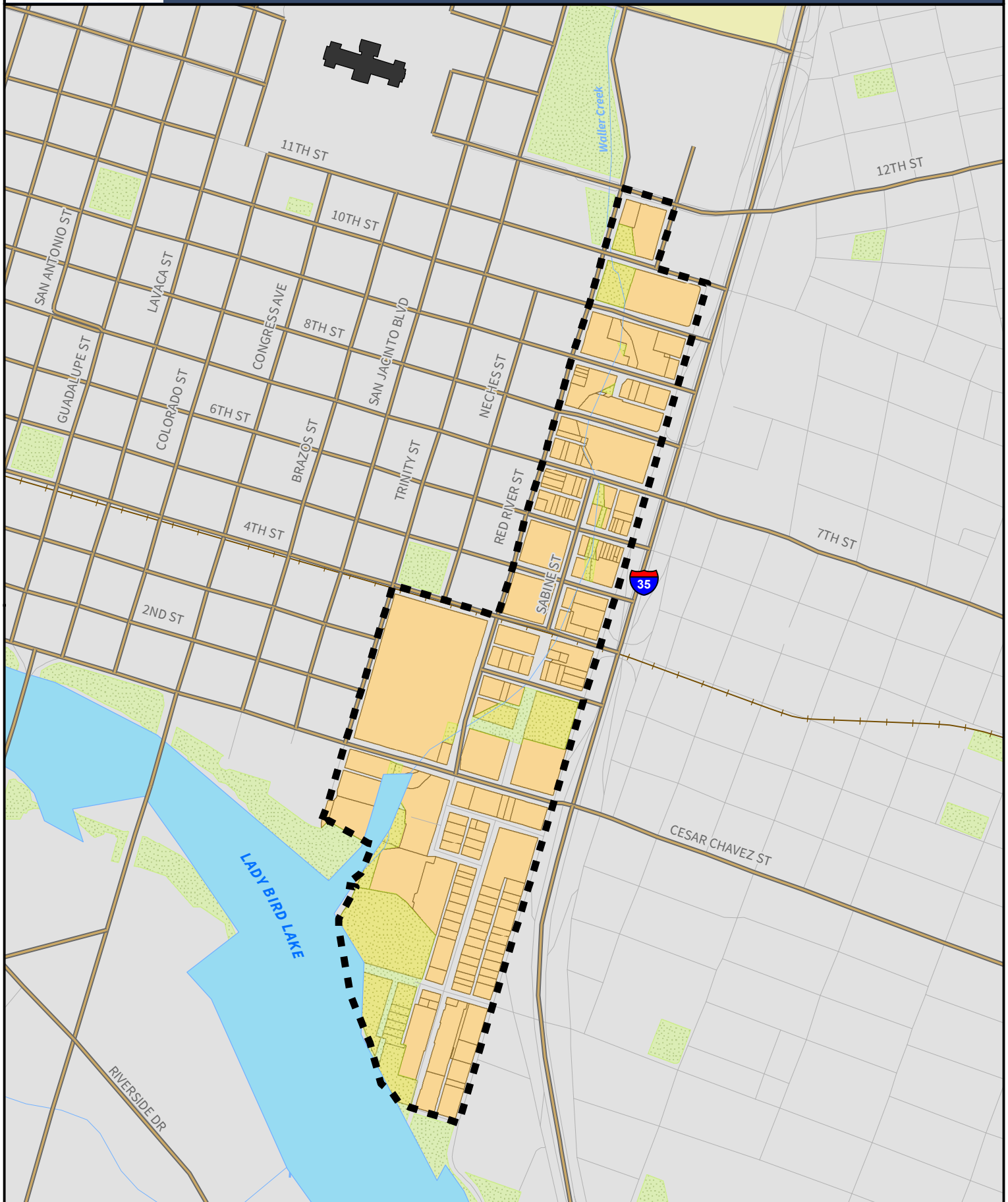
This report has been prepared for the City of Austin Finance Department to examine the development potential and anticipated future assessed values within the Waller Creek TIF zone through 2040.

There are many public and private funding sources that may be employed to finance the capital and operating expenses of a world class urban park. Direct City funding through the allocation of General Fund revenues is the traditional source of funds, but the competition among City departments for limited resources makes this an unsustainable alternative in the long term. Currently the City, the Waller Creek Conservancy and the Downtown Austin Alliance are engaged in discussions that may result in a shared responsibility for the ongoing operation and maintenance of the Waller Creek Parks District. Recognizing that taming the flood waters in Waller Creek was a necessary first step toward the creation of the Waller Parks District, the City of Austin created a Tax Increment Finance district in 2009 to pay for the Waller Creek Tunnel project. The tunnel construction began in 2010 and became operational in late 2017. Approximately \$106 million in TIF bonds were sold in five “tranches” from 2011 through 2016 to pay for the tunnel. However, additional funding is needed to create and operate the park system made possible by the construction of the bypass tunnel.

This report will evaluate the future potential for development and tax base enhancement in the area that surrounds the Waller Parks District, in anticipation of the issuance of additional TIF bonds for the existing TIF district.

The following sections of the report present a demand based forecast for the Waller Parks District, for the existing TIF district through 2040. The demand forecast establishes the pace of development that is likely to occur over the next 22 years. The development potential is then converted into new development value and used to calculate the change in tax base and property tax revenues. In addition, the report provides, in the appendix, an inventory of the many projects currently underway or planned for the district.

Figure (1)
Waller Parks District: Existing TIRZ



GENERAL AREA ANALYSIS:
DEMAND DRIVERS

Economic Context

Overview

The Waller Creek TIF District, is located at the eastern edge of the Downtown Austin market area, and is primarily influenced by the economic base of the City of Austin, Travis County, and the Austin-Round Rock MSA. The Austin MSA is comprised of Bastrop, Caldwell, Hays, Travis and Williamson Counties. The Austin MSA is comprised of Bastrop, Caldwell, Hays, Travis and Williamson counties. According to the U.S. Census Bureau, the Austin-Round Rock MSA grew by 19.8% in from 2010 through 2016 (U.S. Census estimates, July 1), and now has a population that exceeds 2 million people.

Austin is the county seat of Travis County, which grew by 17.08% from 2010 to 2016, according to the U.S. Census Bureau (July 1, 2016 estimate). The Austin-Round Rock MSA is anchored by employment in state and local government and higher education, including the University of Texas, St. Edward's University, Texas State University, and Southwestern University. Research and development and healthcare are also important economic influences, while high-tech and internet based companies have become an integral part of the economy.

Employment Growth for Austin-Round Rock MSA

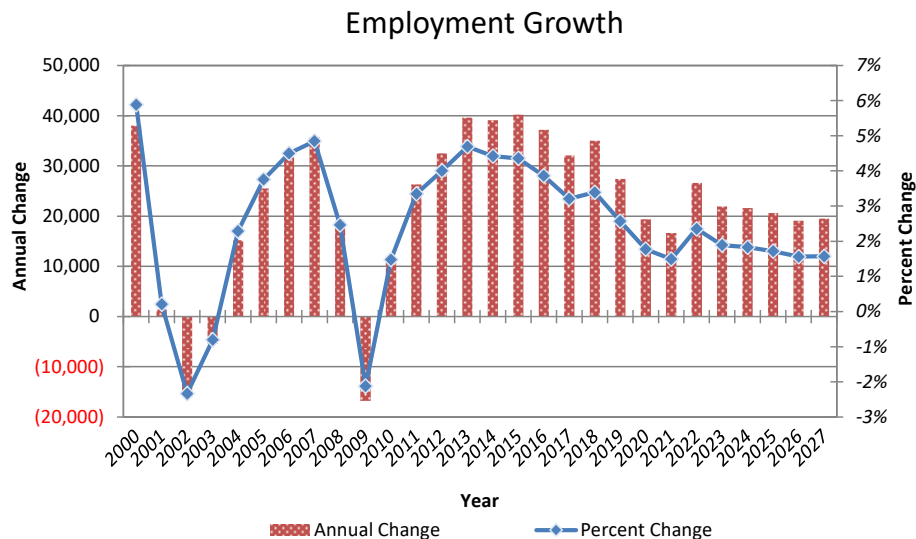
Employment grew rapidly in Austin in the late 1990s with annual increases ranging from 25,100 in 1996 to 38,000 in 2000. However, in 2002 the Austin area lost more than 16,000 jobs and in 2003, the loss was 5,400. In a remarkable recovery, growth resumed in 2004, and the Texas Workforce Commission reported a net increase of 108,100 jobs in from January 2004 through December 2007. For a period of time in late 2007 and early 2008 it appeared that Austin might not be affected by the national housing crisis, but eventually the lack of credit for new lot construction, retail chain expansions and business inventory additions resulted in a decrease in new job creation in the local economy, which diminished to (-16,800) in 2009. However, the economy began a modest recovery in 2010 with 11,400 jobs added and gained more momentum in 2011 with 26,300 jobs added. The recovery then accelerated, adding approximately 39,000 jobs in 2013 and again in 2014. Employment growth continued its positive trajectory through 2015 and 2016, with an average increase of 38,650 jobs a year. The most recent forecast (April 2018) shows a slower, but still positive job growth trend. Table (1) on the following page provides recent employment statistics and projections for the Austin-Round Rock MSA. Forecasted annual increases in the Austin-Round Rock MSA employment for 2018 through 2027 are expected to average 2.01%. The forecast shown is from Moody's, Economy.com, Austin-Round Rock MSA Employment Forecast, April 9, 2018. The time frame for the proposed TIF extension is 2040, so the average rate of increase from the first ten years was extended to cover the remaining twelve years to 2040.

Table (1)
Historical & Projected Employment Growth
 Austin-Round Rock MSA

Year	Total Wage & Salary Emp.	Annual Change	Percent Change
2000	683,900	38,000	5.88%
2001	685,300	1,400	0.20%
2002	669,300	(16,000)	-2.33%
2003	663,900	(5,400)	-0.81%
2004	679,100	15,200	2.29%
2005	704,600	25,500	3.75%
2006	736,300	31,700	4.50%
2007	772,000	35,700	4.85%
2008	791,000	19,000	2.46%
2009	774,200	(16,800)	-2.12%
2010	785,600	11,400	1.47%
2011	811,900	26,300	3.35%
2012	844,400	32,500	4.00%
2013	884,000	39,600	4.69%
2014	923,100	39,100	4.42%
2015	963,300	40,200	4.35%
2016	1,000,500	37,200	3.86%
2017	1,032,600	32,100	3.21%
2018	1,067,600	35,000	3.39%
2019	1,095,000	27,400	2.57%
2020	1,114,400	19,400	1.77%
2021	1,131,000	16,600	1.49%
2022	1,157,600	26,600	2.35%
2023	1,179,500	21,900	1.89%
2024	1,201,100	21,600	1.83%
2025	1,221,700	20,600	1.72%
2026	1,240,800	19,100	1.56%
2027	1,259,800	19,500	1.57%

Source: Texas Workforce Commission, Annual Average Wage &
 Non-Farm Salary Employment (1990-2017)
 Forecasted employment increase obtained from Moody's Economy.com April
 9, 2018

datasets_empgro_austin_2018.xls



Austin MSA Housing Demand

Rapid population growth in Austin and other U.S. cities is almost always attributable to the immigration of people from other areas, often because of job opportunities. A recent (2018) U.S. News and World Report assessment of the largest metropolitan areas in the U.S. ranked Austin Number 1 in their list of best places to live. A major component of this ranking is the strength of the market for employment opportunities. The positive national exposure, combined with the demonstrable growth in employment (Table (1)), and an unemployment rate of 3.0% for the Austin MSA (February 2018) makes Austin an extremely desirable place for people to move. The City of Austin reported in 2016 that approximately 110 people per day are moving to the Austin area, and 45 people per day are moving into the City limits. Many of those people are moving to Austin in search of employment, and many of those people will seek out rental housing in apartments.

The table below provides an estimate of new rental units needed as a result of the job increases anticipated over the next ten years. Based on recent building permit data, we have estimated multi-family unit demand to be 96.84% of the total rental unit demand and will average 7,751 units per year from 2018 through 2027.

Table (2)
Multi-Family Housing Demand
Austin-Round Rock MSA

Year	MSA Employment Increase	Population Increase	Household Size	New Households	New Renter Households	Multi-Family Demand
2018	35,000	76,469	2.58	29,639	12,304	11,915
2019	27,400	59,865	2.58	23,203	9,632	9,327
2020	19,400	42,386	2.58	16,429	6,820	6,604
2021	16,600	36,268	2.58	14,057	5,835	5,651
2022	26,600	58,117	2.58	22,526	9,351	9,055
2023	21,900	47,848	2.58	18,546	7,698	7,455
2024	21,600	47,192	2.58	18,292	7,593	7,353
2025	20,600	45,008	2.58	17,445	7,241	7,013
2026	19,100	41,730	2.58	16,175	6,714	6,502
2027	19,500	42,604	2.58	16,513	6,855	6,638

Source: Employment Forecast from Table (1)

datasets_empgro_austin_2018.xls

Note: Population to employment ratio held constant (0.4577)

Household size (2.58) and Percent Renter (41.51%) based on 2010 Census

Multi-family demand based on building permits issued in the MSA over the past 10 years (96.84%)

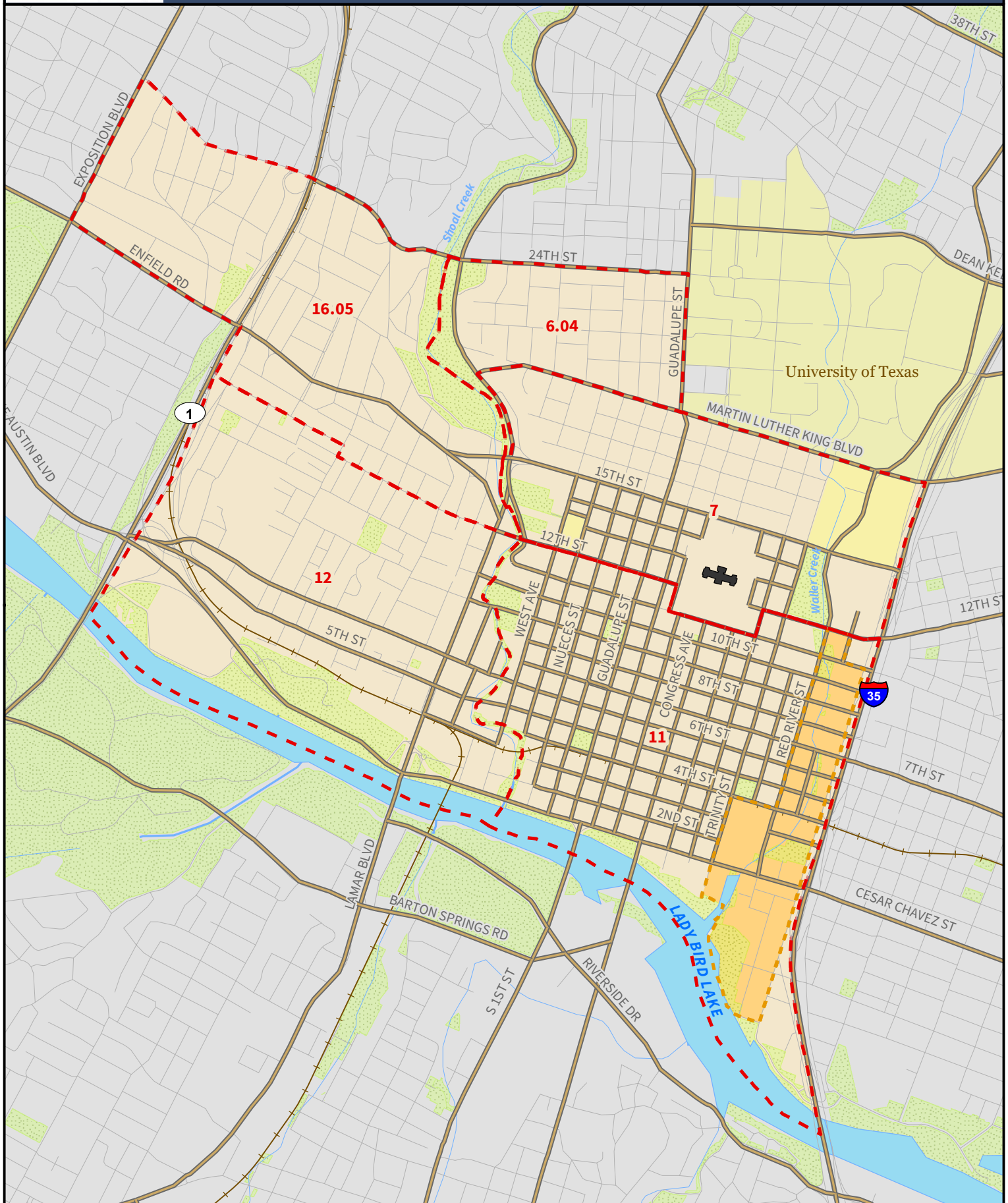
**MARKET AREA DEFINITION &
DEMOGRAPHIC ANALYSIS**

Downtown Austin Market Area Definition

In order to accurately represent the demand for commercial and residential development at the subject site, regional demand must be disaggregated to the neighborhood or market area level. This process of disaggregation is often accomplished by segmenting a large geographic region into submarkets or neighborhoods. The neighborhood for the subject property must be small enough to capture relevant local trends and product preferences, but it also must be large enough to capture all of the current and potentially competitive properties along with important employment and activity generators.

The Waller Creek TIF District is approximately 37 acres located at the eastern edge of downtown between Trinity Street and IH-35 in Downtown Austin, Texas. The market area defined for this project is most appropriately defined as the Downtown Austin market area, bounded generally by Lady Bird Lake to the south, Mopac to the west, 24th Street and MLK Jr Boulevard to the north, and Interstate 35 to the east. Land uses in the market area that are considered to be important include the CBD office buildings and the State Capital Complex, the new Seton Dell Medical Center, the Austin Convention Center, the developing Seaholm, Green Water and Second Street Districts, Lady Bird Lake and the adjacent hike and bike trail, nearby park land, the Sixth Street, Fourth Street and Rainey Street entertainment districts, apartment and condominium projects, and single family residential neighborhoods west of Lamar Boulevard.

Another important consideration for defining the market is image and market perceptions. This is often quite difficult to accomplish because one market may phase quietly into another without a clear physical or psychological barrier. In this case, the subject property is located in Downtown Austin, east of Trinity and west of IH-35, between 12th street on the north and Lady Bird Lake on the south, close to the University of Texas and the State Capital Complex. The definition of the market area must also take into consideration the availability of relevant information, particularly demographic data. Census tract geography is most often used to delineate market areas because the data available from the Census is critical to thorough and relevant analysis of the market. The Downtown Austin market area, shown on the map on the following page, is comprised of 2010 Travis County census tracts 6.04, 7, 11, 12, and 16.05.



DOWNTOWN AUSTIN
OFFICE MARKET CONDITIONS

Austin Office Market Overview

The office market in Austin has, over the last 26 years, evolved from a relatively small government-oriented market to a much larger and more diverse multi-tenant market. In 1980 the multi-tenant office market in Austin contained approximately 5.4 million square feet of space in 77 buildings. By 1987, the market had expanded fourfold to include more than 22 million square feet in 251 buildings and it now contains 46.6 million sq. ft. in 653 buildings.

Reflecting the historical focus on State government and the location of the Capitol Building, for most of the 20th century a majority of office space was concentrated in Downtown Austin. In recent years, however, suburban office development has dominated the market, since almost 100% of the space built during the nineties was constructed in the suburban market. From 1993 to 1999, a majority of leasing activity also took place in the suburbs, and until the first quarter of 2001, the suburban markets displayed remarkable strength, with almost every new building fully leased when it received a certificate of occupancy. Then, as a result of another boom in suburban office construction in 2007 and 2008 the suburban market occupancy rates have dropped dramatically, and the market became much more competitive. Currently, the community is experiencing strong demand for office in both the CBD and the suburban market, with high occupancy and increasing rates across the region.

Historical Market Trends

Austin, like many other cities in Texas, experienced an unprecedented boom in office space construction and absorption in the mid-eighties. Driven by a rapidly expanding economy and media attention associated with the formation of MCC (Microelectronics & Computer Technology Corporation, a consortium of high tech businesses, working together to create innovative technology), office absorption in 1984 surged to 2.56 million square feet. From 1983 to 1987 the inventory of general-purpose office space increased by 128%, a dramatic expansion caused by a massive construction boom. Unfortunately, the downturn in the Texas economy coupled with slow growth in the computer industry caused declines in office employment and absorption of the new space. In 1987, Austin had one of the lowest occupancy rates in the country at 62.6%.

With increasing occupancy and improving rental rates, 1990 was the turnaround year for the Austin office market. Government agencies led the market recovery as entities like the Austin Independent School District, Austin Community College and the State of Texas purchased vacant multi-tenant office buildings, removing them from the available inventory. This trend continued through 1991 and 1992, and in 1993 and 1994 private companies initiated a similar trend as they bought and occupied suburban office buildings. From 1995 through the end of 2000, the market expansion gained strength as rental rates increased and new buildings were completed and fully leased at completion. Between January 2000 and December 2002, the Austin office market deteriorated rapidly as many pre-profit dot.com companies went out of business and gave up their lease space. Over the same three-year period over 6.0 million square feet were completed in 77 new buildings. In 2003 only one building was completed with 83,843 sq. ft. Four buildings were completed in 2004 with a total of 605,686 sq. ft. and in 2005 and 2006 there were no (0) new buildings added to the inventory. The December 2006 office report showed a dramatic increase in occupancy to 87.8% (including sublease space) and 88.9% occupancy of owner-offered (direct)

space. But in December 2007 the occupancy rate dropped to 85.2% due to the lack of leasing activity combined with the completion of 1,398,077 sq. ft. of new office space in 2007. Absorption for the year was an anemic 145,122 sq. ft., which was a dramatic slowdown from the positive trend of the prior three years. In December 2008 the office market conditions continue to decline as 2,373,710 square feet were added to the market and only 484,876 square feet were absorbed. Then, in 2009, the market experienced negative absorption of almost one million sq. ft. while 976,999 sq. ft. were added during the year. December 2010 occupancy, including sublease space, increased to 80.3% but the quoted rental rates dropped by \$1.63 to \$24.68. Throughout 2011, average rates continued their decline, but occupancy rates increased and in some areas, like the CBD and Southwest Austin, finding large blocks of contiguous space was increasingly difficult. At the end of 2011, average rates were down slightly from 2010 to \$24.19, but occupancy including sublease space increased to 83.7%.

Recent Market Conditions

Throughout 2012 and 2013, the market steadily improved with strong leasing activity in the CBD, Northwest and Southwest market areas. At the end of 2015, the citywide occupancy rate surpassed 90.0% for the first time since 2000. The market has continued to gain strength through 2016, ending the year 91.6% occupancy and average rents reaching \$34.05 (gross rates). In the first half of 2017, strong demand supported an increase in the average to \$34.91 (gross) per square foot. The occupancy rate in June 2017 leveled off at 91.6%.

A December 2017 report by Cushman and Wakefield showed the Austin office market at 89.6% occupied, with an absorption rate of 627,153 square feet. Average rents, according to Cushman and Wakefield, have continued to climb, reaching \$36.13 (gross) per square foot. Capitol Market Research documented over 1.6 million square feet of office space delivered in 2017, including three buildings with multi-tenant space that completed in the CBD (500 W. 2nd, Shoal Creek Walk, and the UT Systems Building), Domain 8 (292,000 sq. ft.) in the Domain that was 100% preleased upon completion, and over 410,000 square feet in Southwest Austin, including two buildings (175,000 sq. ft.) that was preleased to YETI.

Table (3)
Austin Citywide Office Market Summary
(December 1991 - December 2017)

Year	Net Rentable Area	Total Leased	Percent Occupied	Additions (Sq.Ft.)	Absorption (Net Sq.Ft.)	Average Rent per Sq. Ft.
1991	21,010,788	16,592,251	79.0%	120,000	674,374	\$12.12
1992	20,783,333	17,312,282	83.3%	0	917,967	\$12.37
1993	20,979,552	18,174,152	86.6%	195,454	798,889	\$12.84
1994	21,237,702	18,742,752	88.3%	0	695,813	\$13.54
1995	21,343,917	19,230,407	90.1%	33,000	352,263	\$14.85
1996	22,351,191	20,461,948	91.5%	448,875	588,677	\$16.25
1997	23,564,021	21,952,889	93.2%	701,342	957,623	\$17.89
1998	24,659,563	23,206,121	94.1%	1,077,000	1,190,829	\$19.88
1999	26,841,892	25,161,595	93.7%	2,239,516	1,997,260	\$21.11
2000	28,524,537	27,213,822	95.4%	1,764,244	1,867,353	\$26.70
2001	31,162,686	25,531,590	81.9%	2,520,265	(1,680,818)	\$26.05
2002	33,198,203	24,256,957	73.1%	1,617,984	(1,274,633)	\$20.71
2003	33,125,064	24,840,794	75.0%	83,843	583,837	\$18.35
2004	34,529,701	27,960,818	81.0%	605,686	1,572,164	\$18.88
2005	34,607,839	29,402,802	85.0%	0	912,552	\$20.08
2006	34,513,174	30,288,445	87.8%	0	965,954	\$21.96
2007	35,630,721	30,365,399	85.2%	1,398,077	145,122	\$25.47
2008	38,445,479	31,313,962	81.5%	2,373,710	484,876	\$27.41
2009	39,677,836	30,584,102	77.1%	976,999	(971,414)	\$26.31
2010	39,274,313	31,548,225	80.3%	88,694	964,123	\$24.68
2011	39,358,387	32,959,646	83.7%	0	1,361,946	\$24.19
2012	39,555,890	34,070,832	86.1%	62,192	1,072,575	\$25.41
2013	39,156,400	34,195,776	87.3%	101,444	485,059	\$27.74
2014	42,222,619	37,626,733	89.1%	1,274,569	1,851,291	\$29.78
2015	44,004,567	40,013,489	90.9%	1,768,664	2,365,751	\$31.18
2016	45,977,582	42,135,826	91.6%	1,632,342	1,833,694	\$34.05
2017	50,068,367	44,850,415	89.6%	1,684,323	627,153	\$36.13

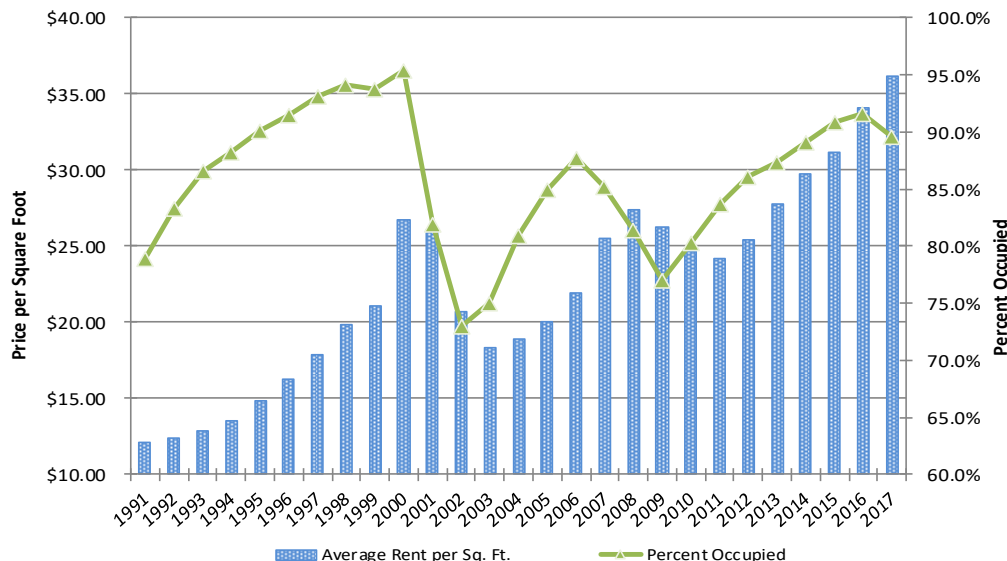
Source: Capital Market Research, Austin Area Office Survey, December 1991 - December 2016

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Average quoted rent for all available space on a "Gross" Lease basis

Includes sublease space starting in 2001

Note: December 2017 summary from Cushman and Wakefield Marketbeat Q4 2017 Report



Downtown Austin Office Market Conditions

In December 2017, Capitol Market Research surveyed all 64 multi-tenant office buildings in the Austin CBD that together comprise a total of 10,165,393 square feet of rentable space. Currently, the market area occupancy, including sublease space, is 89.8%, which is down from June 2017 when it was 92.8%. Average rents are \$53.01 per square foot on a “gross” lease basis, up \$4.58 since June 2017 when they were \$48.43.

New Construction

Since 2010, twelve buildings with a total of 1,848,423 sq. ft. of rentable space have been added to the market area: 1705 Guadalupe (2015), 3Eleven Bowie (2015), 500 W. 2nd (2017), 501 Congress (2015), 5th+Colorado (2016), Colorado Tower (2014), IBC Bank Plaza (2014), Market District South Block (2013), Northshore (2016), Seaholm (2015), Shoal Creek Walk (2017), and the University of Texas System Building (2017). In addition, one new building that opened in 2009 (Shoppes at 5th & Lamar) delivered additional square footage in 2011.

Currently, there are two office buildings under construction in downtown Austin, which together will add 445,087 square feet to the market. One of these projects, Westview, is scheduled to open 100,087 square feet of renovated space in the second quarter of 2018, while the remaining building (Third+Shoal) is scheduled to open in October 2018. Both of these buildings will deliver class “A” space to the market area, and Third+Shoal is approximately 75% preleased. There are also several proposed projects that are considering office use as part of a mixed-use development or as a free-standing office building.

Occupancy & Absorption

The current (December 2017) “direct” occupancy in the market area is 92.4%, while the current total occupancy (including sublease space) is 89.8%. The slight dip in occupancy is due in part to a large amount of sublease space available (267,419 sq.ft.) and the addition of 741,509 square feet of multi-tenant office space in three buildings between June and December 2017.

Absorption in a tight market is usually driven by the completion of new space. However, from 1991 through 1999 the Downtown Austin market area experienced sustained absorption and rapidly rising rental rates with no new construction. Then, just as new buildings were started in 2001 and 2002, the market became soft and absorption turned negative. From 2000 through the end of 2005 (with the exception of 2004), the downtown market experienced negative absorption each year. Then from the beginning of 2006 through the end of 2008, the market made a remarkable recovery and absorbed a total of 755,863 sq. ft. before slowing down in 2009, as the national recession impacted Austin and downsizings had a negative effect on absorption. However, leasing activity picked up the following year, with 467,763 square feet absorbed in 2010 and 382,345 square feet absorbed in 2011 and 2012 combined. Absorption slowed again in 2013, due in part to the lack of available space. Then, from 2013 through the end of 2016, market demand accelerated as nine new office buildings have opened, with most of the space preleased before opening. In 2017, the absence of new space in the first six months created a negative absorption scenario, before three new buildings opened between June and December 2017. The last six months of 2017 saw 380,339 square feet

of space absorbed into the market area, with large amounts of space preleased in both 500 W. 2nd and Shoal Creek Walk.

Average Rents

Average rents in the Downtown Austin market area rose dramatically from \$15.17 per sq. ft. in December 1991 to \$31.81 per sq. ft. in December 2000, a 109.7% increase over a nine-year period. Since then, rents dropped back to \$21.33 per sq. ft. in December 2003, but have since moved up and are currently at \$53.01 per sq. ft. in December 2017.

New large, class “A” buildings (built since 2000) are leasing at rental rates higher than the market average (ranging from a gross average of \$32.88 to \$68.11 per square foot) while maintaining a higher than average occupancy (93.9% including sublease space). The rent disparity between the new Class A+ properties and smaller Class A and B buildings is a result of the willingness of certain tenants to pay a premium for high-quality, prestige and image. Other factors affecting Class A+ rates are the larger, more efficient floor plates in the new buildings and high parking ratios available in the attached garages. Because some tenants are willing to pay for quality, view, location, and amenities, and because there is a shortage of supply in these buildings, these landlords are able to obtain much higher rents.

Market Outlook

The continued increase in total occupancy has allowed average rental rates to increase, and the combination of high rents and increasing occupancy has resulted in the delivery of eleven class “A” properties since 2014, with an additional two buildings under construction. In addition to the multi-tenant space planned in the market area, several owner occupied office buildings have started in and around Downtown Austin, including Oracle just south of Lady Bird Lake and the SXSW building at 1400 Lavaca Street.

The leasing of large amounts of office space to Google at 500 W. 2nd and Cirrus Logic at Shoal Creek Walk, shows the increasing diversity of the downtown tenant mix, as tech and other “creative” companies look for well-located office space in Downtown Austin. Preleasing at the under construction Third+Shoal to Facebook and to Parsley Energy, at the recently announced 300 Colorado building, confirms the continuing attractiveness of Downtown Austin to large companies looking to maintain or expand their presence in a highly desirable location.

In the longer term, the continued expansion of the Downtown Austin residential and retail development is likely to support increases in occupancy rates, and will attract a more varied tenant mix than the historically dominant law firms, lobbyists and financial institutions. There are also a limited number of sites on which to construct new buildings, as well as significant additional costs for downtown versus suburban buildings.

Table (4)
Office Market Summary
Downtown Austin

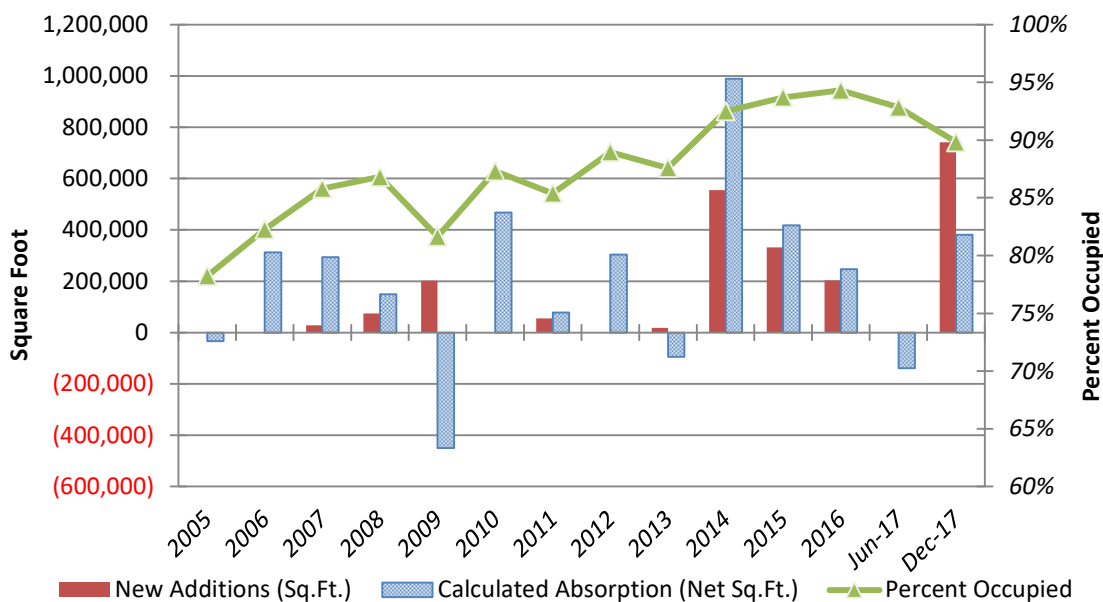
Year	Net Rentable Area	Total Leased	Percent Occupied	New Additions (Sq.Ft.)	Calculated Absorption (Net Sq.Ft.)	Average Rent per Sq. Ft.
2005	8,419,431	6,586,308	78.2%	0	(32,996)	\$21.78
2006	8,402,676	6,912,334	82.3%	0	312,769	\$25.75
2007	8,179,829	7,017,517	85.8%	27,939	294,017	\$29.39
2008	8,254,271	7,165,869	86.8%	75,000	149,077	\$31.78
2009	8,436,767	6,887,756	81.6%	202,000	(449,975)	\$32.92
2010	8,441,607	7,370,169	87.3%	0	467,763	\$33.32
2011	8,516,361	7,271,929	85.4%	54,684	78,299	\$32.34
2012	8,527,208	7,584,887	88.9%	0	304,046	\$35.33
2013	8,348,915	7,313,266	87.6%	17,540	(94,361)	\$38.06
2014	9,009,220	8,333,469	92.5%	555,097	988,652	\$41.02
2015	9,295,205	8,709,496	93.7%	331,685	417,652	\$43.90
2016	9,498,497	8,957,267	94.3%	202,592	247,771	\$46.81
Jun-17	9,498,497	8,818,113	92.8%	0	(139,154)	\$48.43
Dec-17	10,165,393	9,129,184	89.8%	741,509	380,339	\$53.01

Source: Capital Market Research, Austin Area Office Survey, December 2005 - December 2017

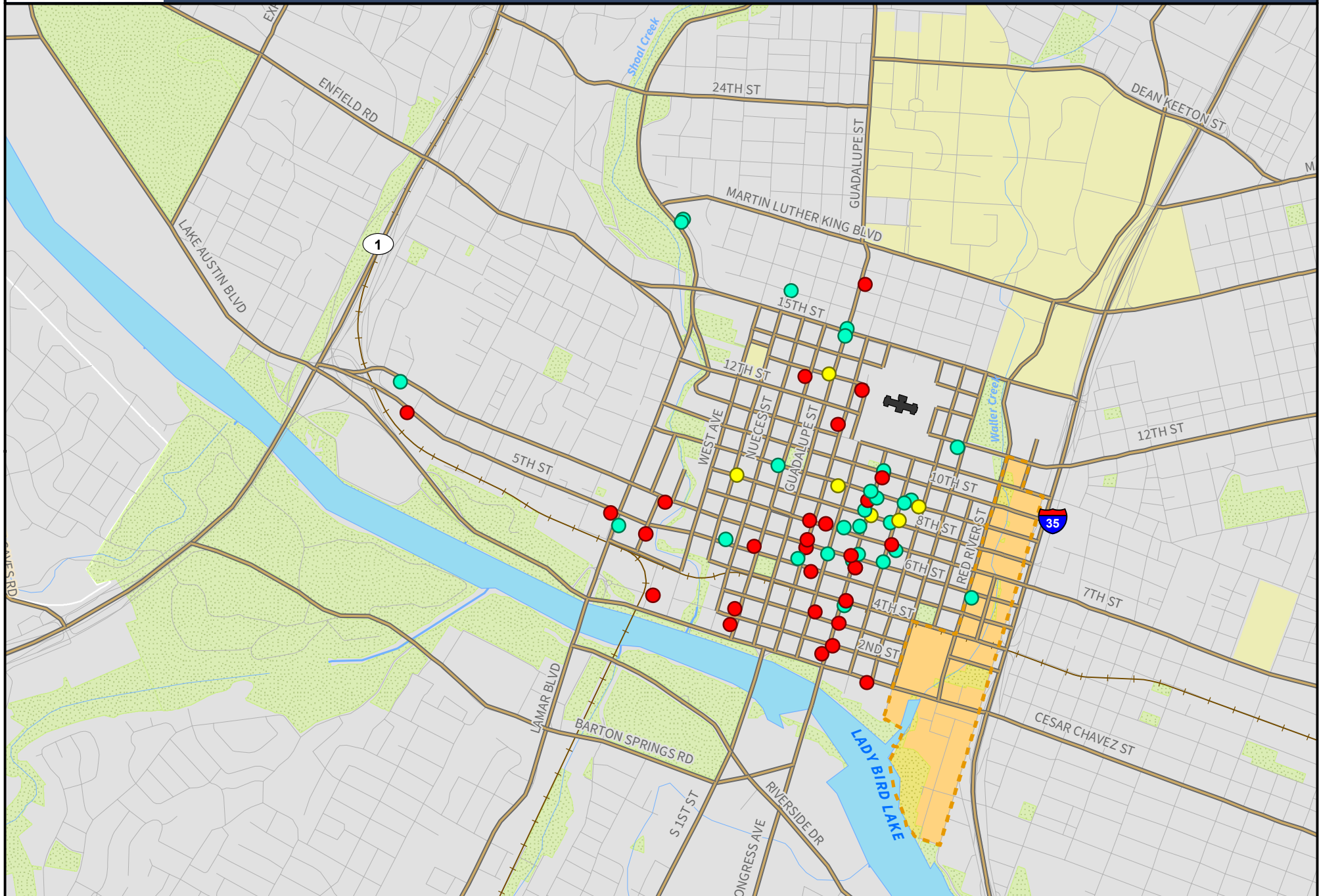
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Average quoted rent for all available space on a "Gross" Lease basis

* Sublease space included in all calculations (excluding 2000)



Downtown Austin: Existing Office Inventory



Inventory and Market Share

Since December 2000, the Downtown Austin office market has grown from 7,130,221 sq. ft. in 43 buildings to 10,165,393 sq. ft. in 67 buildings (December 2017). While construction of new buildings tends to come in “spurts”, the annual increase to the Downtown market inventory has averaged approximately 168,621 sq. ft. since December 2000. The inventory share of the total Austin market has slowly decreased, from a high of 25.0% in 2000, to a low of 20.7% in December 2016 but increasing in 2017 to 21.3%, while maintaining an average of 22.4% over the past eighteen years. The decline in share reflects the rapid expansion of the suburban market, where buildings tend to be smaller, less expensive to build, and easier to get financed.

Table (5)
Office Inventory & Market Share
Downtown Austin

Year	Citywide Inventory	Market Area Inventory	Market Share	Change in Share
2000	28,524,537	7,130,221	25.0%	-1.7%
2001	31,162,686	7,225,882	23.2%	-1.8%
2002	33,198,203	7,631,101	23.0%	-0.2%
2003	33,125,064	7,709,012	23.3%	0.3%
2004	34,529,701	8,426,803	24.4%	1.1%
2005	34,607,839	8,419,431	24.3%	-0.1%
2006	34,513,174	8,402,676	24.3%	0.0%
2007	35,630,721	8,179,829	23.0%	-1.4%
2008	38,445,479	8,254,271	21.5%	-1.5%
2009	39,677,836	8,436,767	21.3%	-0.2%
2010	39,274,313	8,441,607	21.5%	0.2%
2011	39,358,387	8,516,361	21.6%	0.1%
2012	39,555,890	8,527,208	21.6%	-0.1%
2013	39,156,400	8,348,915	21.3%	-0.2%
2014	42,222,619	9,009,220	21.3%	0.0%
2015	44,004,567	9,295,205	21.1%	-0.2%
2016	45,977,582	9,498,497	20.7%	-0.5%
2017	47,661,905	10,165,393	21.3%	0.7%
Average			22.4%	

Source: Capitol Market Research, December 2000 - June 2017

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Historical Absorption

Absorption in the subject market area has fluctuated significantly over the years, but it has averaged approximately 21.0% of the annual citywide office space absorption since 2001, equating to an average annual absorption of 149,010 square feet a year between January 2001 and December 2017. In 2001, absorption was negative in the city and the Downtown market area as many e-commerce, start-up companies gave up their space. Then from 2004 through 2006, absorption picked up as the economy improved, and companies began to expand and needed more space. Then the world-wide financial crisis brought an end to corporate relocations and expansion and the office market suffered through the end of 2009. However, following the global financial crisis, the office market in the Downtown market area experienced increases in occupancy and positive absorption, which confirms the ongoing desirability of the market area.

The Downtown Austin market area has captured 23.1% (3,360,773 sq. ft.) of the citywide absorption from January 2003 through December 2017. This healthy amount of absorption in the Downtown market area can be attributed (in part) to the high level of pre-leasing activity seen in the market area, which is driven by the strong demand for space in the most desirable office market in the City.

Table (6)
Historical Office Absorption
Downtown Austin

Year	Citywide Absorption	Market Area Absorption	Market Share
2001	(1,680,818)	(252,014)	15.0%
2002	(1,274,633)	(145,676)	11.4%
2003	583,837	(58,414)	-10.0%
2004	1,572,164	531,691	33.8%
2005	912,552	(32,996)	-3.6%
2006	965,954	312,769	32.4%
2007	145,122	294,017	202.6%
2008	484,876	149,077	30.7%
2009	(971,414)	(449,975)	46.3%
2010	964,123	467,763	48.5%
2011	1,361,946	78,299	5.7%
2012	1,072,575	304,046	28.3%
2013	485,059	(94,361)	-19.5%
2014	1,851,291	988,652	53.4%
2015	2,365,751	417,652	17.7%
2016	1,833,694	247,771	13.5%
2017	951,823	204,782	21.5%
Total	13,491,255	2,836,715	21.0%

Source: Capitol Market Research, December 2017 offsum_cbd.xls
Citywide Office Market Surveys Dec. 2000 - June 2017
December 2017 is the average of (5) brokerage firms

Downtown Austin Competitive Office Sites

In addition to the existing downtown buildings, office space built in the Waller Creek TIF District will be competing with other downtown office sites and new buildings under construction. The potential additions to the defined market resulting from the development of other planned office sites is based on the capacity of office developers to obtain the necessary construction financing and city approvals, often after a lengthy process where the developer has negotiated the land purchase with multiple ownership interests.

The December 2017 survey conducted by Capitol Market Research for this evaluation revealed a total of twelve zoned sites that have buildings that are either under construction, have been “announced” or that might be developed as a competitive office space. One of the sites has just recently finished construction and two are currently under construction, with scheduled delivery dates ranging from March to October 2018. In addition there is 3,052,585 square feet of under construction and planned space, thus indicating the potential for competitive development within the proposed project development horizon. After interviewing developers and leasing agents, we have prepared a “pipeline” analysis for the subject market area that represents the best information available to us in December 2017.

Table (7)
Planned Multi-Tenant Office Buildings
Downtown Austin

Map No.	Name	Address	Developer Name	Size	Class	Status	Estimated Start	Estimated Completion
1	300 Colorado	300 Colorado Street	Riverside Resources	302,000	A	Proposed	Dec-18	Dec-20
2	405 Colorado St	405 Colorado St	Brandywine	196,000	A	Submitted	tbd	tbd
3	410 Uptown	410 W. 18th St	Mid-City Development	186,957	A	Proposed	tbd	tbd
4	600 Guadalupe	600 Guadalupe St.	Lynd Development	570,000	A	Submitted	Sep-18	Sep-21
5	Block 71	200 W. 6th St.	Trammell Crow	665,000	A	Submitted	tbd	tbd
6	Block 87	701 Trinity St.	Cielo Property Group	182,328	A	Submitted	tbd	tbd
7	Courthouse Block	308 Guadalupe Street	Lincoln Property Group	600,000	A	Proposed	tbd	tbd
8	Rainey Gateway	84 Rainey St.	Sackman Development	50,000	A	Submitted	tbd	tbd
9	Shoal Creek Walk	835 W. 6th Street	Schlosser	212,500	A	Complete	Jun-16	Nov-17
10	Third+Shoal	208 Nueces St.	Cielo Property Group	345,000	A	Construction	May-16	Oct-18
11	Waller Center	Red River & Cesar Chavez	McCourt/Hines	300,000	A	Approved	<i>on hold</i>	
12	Westview (rehab)	316 W. 12th St.	Lincoln Property Group	100,087	A	Construction	Sep-16	Mar-18
Total				3,709,872				

Source: Capitol Market Research, Developer Interviews, April 2018

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